

CHAPTER–IV

Transition to Indian Accounting Standards and the impact of their adoption on State Public Sector Enterprises

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This chapter deals with the implementation of Indian Accounting Standards (Ind AS) by Government Companies and Government Controlled Other Companies, focusing on its impact on financial reporting and compliance. Audit evaluated compliance with Ind AS provisions, analysed disclosures related to first-time adoption, and assessed the financial impact on key areas such as profitability, revenues, assets, and net worth.

Introduction

4.1 The role of financial reporting in the overall growth and development of an economy is highly significant. The era of globalisation and liberalisation has led to increased social mobility and cross-border movement of finance, capital, and commodities. This, in turn, has necessitated the adoption of a single set of Accounting Standards.

With the emergence of principle-based International Financial Reporting Standards (IFRS) in the global accounting scenario, which have been set by the International Accounting Standards Board (IASB), a need was felt to converge Indian Accounting Standards with the updated IFRS. The adoption or convergence with IFRS enhances transparency, accountability, and efficiency in financial markets and serves the public interest by fostering trust, growth, and long-term financial stability in the global economy.

The Ministry of Corporate Affairs (MCA), Government of India (GoI), notified the Indian Accounting Standards (Ind AS) under Section 133 of the Companies Act, 2013, vide the Companies (Indian Accounting Standards) Rules, 2015. These standards were developed keeping in view the Indian economic and legal environment, while referring to the IFRS framework.

The Ind AS were modelled on IFRS and differ from the Indian Generally Accepted Accounting Principles (IGAAP) framework primarily in three key aspects, *i.e.*, fair valuation, substance over legal form, and emphasis on the Balance Sheet. These Ind AS are mandatorily applicable to the prescribed class of companies with effect from 1 April 2016. As on 31 March 2023, there were 39 Ind AS, as detailed in **Appendix 4.1**.

Roadmap for the applicability of Ind AS

4.2 The Companies (Indian Accounting Standards) Rules, 2015 laid down a roadmap for mandatory transition to Ind AS in a phased manner, as detailed below:

Phase I:

The following companies were covered under Phase I for accounting periods beginning on or after 1 April 2016, with comparatives for the periods ending on 31 March 2016 or thereafter:

- (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 a net worth of ₹ 500 crore or more;

- (ii) Companies other than those mentioned in clause (i) above, having a net worth of ₹ 500 crore or more; and
- (iii) Holding, subsidiary, joint venture, or associate companies of those mentioned in clauses (i) and (ii) above.

Phase II:

The following companies were covered under Phase II for accounting periods beginning on or after 1 April 2017, with comparatives for the periods ending on 31 March 2017 or thereafter:

- (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 a net worth of less than ₹ 500 crore;
- (ii) Companies other than those mentioned in clause (i) above, that is, unlisted companies having a net worth of ₹ 250 crore or more but less than ₹ 500 crore; and
- (iii) Holding, subsidiary, joint venture, or associate companies of the above companies.

Further, any company may apply Ind AS voluntarily for financial statements for accounting periods beginning on or after 1 April 2015, with comparatives for the periods ending on 31 March 2015 or any time thereafter. Once a company starts following Ind AS, either voluntarily or mandatorily based on the specified criteria, it is required to follow Ind AS for all subsequent financial statements, even if any of the specified criteria do not subsequently apply to it.

Status of first-time adoption of Ind AS by SPSEs

4.3 As on 31 March 2023, there were 107 State Public Sector Enterprises (SPSEs) in Uttar Pradesh under the audit jurisdiction of the CAG, governed by the provisions of the Companies Act, 2013. Out of these 107 SPSEs, 26 SPSEs (Phase I – 18 SPSEs, Phase II – five SPSEs, and Voluntary Adoption – three SPSEs), as given in **Appendix 4.2**, had adopted Ind AS.

Among the three SPSEs that adopted Ind AS voluntarily, one SPSE, *viz.*, Moradabad Smart City Limited, had adopted Ind AS from its first financial statements for the year 2018-19.

Review of the first-time adoption of Ind AS

4.4 Ind AS 101 (First-time adoption of Ind AS) prescribes the procedure that a company must follow when adopting Ind AS for the first time. The financial results of a company adopting Ind AS for the first time are required to 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 required to enable the stakeholders to understand the material adjustments to the Balance Sheet and the Statement of Profit & Loss resulting from the 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 permits two types of exemptions from the principle of full retrospective application of Ind AS, *viz.*, mandatory exemptions and voluntary exemptions.

(i) Mandatory Exemptions

Ind AS 101 prohibits the retrospective application of certain 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).

(ii) Optional Exemptions

Ind AS 101 grants exemptions from specific requirements of other Ind AS. These optional exemptions apply from the date of transition from IGAAP to Ind AS-compliant financial statements. The date of transition refers to the beginning of the earliest period for which a company presents full comparative information under Ind AS in its first Ind AS-compliant financial statements.

The details of the various optional exemptions availed by 25 SPSEs¹ in preparing their first Ind AS-compliant financial statements, are given in **Appendix 4.3** and summarised in **Table 4.1**.

Table 4.1: Details of optional exemptions availed by SPSEs

Sl. No.	Details of the optional exemption	No. of SPSEs that availed the optional exemption
1.	Ind AS 16 (Property, Plant and Equipment), Ind AS 38 (Intangible Assets), and Ind AS 40 (Investment Property) Ind AS 101 provides that a first-time adopter may elect to measure an item of property, plant and equipment, intangible assets, and investment property at its fair value on the date of transition to Ind AS and use that fair value as its deemed cost on that date. Alternatively, it may elect to continue with the carrying value as recognised in the financial statements as on the date of transition to Ind AS, measured as per the previous GAAP and use that as its deemed cost on the date of transition, after making necessary adjustments for decommissioning liabilities.	25
2.	Ind AS 27 (Separate Financial Statements) Ind AS 27 requires an entity to account for its investments in subsidiaries, joint ventures, 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, it shall measure that investment either at cost determined in accordance with Ind AS 27 or at deemed cost. If measured at deemed cost, the deemed cost of such an investment may either be the fair value at the date of transition to Ind AS or the carrying amount as per the previous GAAP on that date.	01
3.	Ind AS 17 (Leases) Ind AS 101 permits a first-time adopter to determine whether an arrangement existing at the date of transition to Ind ASs contains a lease based on facts and circumstances existing at the date of transition to Ind AS, except where the effect is expected to be not material.	01

Source: First Ind AS-compliant financial statements of the SPSEs

Audit findings

4.5 Audit reviewed the first Ind AS-compliant financial statements of 25 SPSEs (excluding Moradabad Smart City Limited) that adopted Ind AS, along with additional information furnished by these SPSEs. Deficiencies were observed

¹ Excluding Moradabad Smart City Limited as it had adopted Ind AS from its first financial statements.

in the timely adoption of Ind AS and the preparation of reconciliation statements related to the transition to Ind AS.

In addition, Audit analysed the financial impact of the adoption of Ind AS on key areas such as revenue, profit after tax, total assets, and net worth. The deficiencies observed in the adoption of Ind AS and the results of the financial impact analysis are discussed in the succeeding paragraphs.

Delay in the adoption of Ind AS

4.6 As discussed in **Paragraph 4.2**, companies fulfilling the specified criteria were required to mandatorily adopt Ind AS for the preparation of their financial statements for accounting periods beginning on or after 1 April 2016 or 1 April 2017, as the case may be.

Audit observed that five SPSEs did not comply with the prescribed timelines for mandatory adoption of Ind AS, as discussed below:

- The net worth of **U.P. Scheduled Castes Finance and Development Corporation Limited** was ₹ 342.19 crore as on 31 March 2017. Accordingly, it was required to mandatorily adopt Ind AS for the preparation of its financial statements for the year 2017-18². However, it did not adopt Ind AS for the preparation of its financial statements for that year.
- **Uttar Pradesh Purva Sainik Kalyan Nigam Limited** had a net worth of ₹ 267.55 crore as on 31 March 2018, and was therefore required to mandatorily adopt Ind AS for the preparation of its financial statements for the year 2018-19. However, it did not adopt Ind AS for three consecutive years from 2018-19 to 2020-21 and adopted Ind AS starting from the year 2021-22.
- **Uttar Pradesh State Sugar Corporation Limited** adopted Ind AS for the preparation of its financial statements for the year 2016-17. This necessitated its three subsidiaries, viz., Nandganj Sihori Sugar Company Limited, Ghatampur Sugar Company Limited, and Chhata Sugar Company Limited, to adopt Ind AS starting from 2016-17. However, all three subsidiaries delayed the adoption of Ind AS until 2017-18.

The non-compliance of these five SPSEs with the prescribed timelines for mandatory adoption of Ind AS not only constituted a violation of regulatory requirements but also hindered the alignment of financial reporting with internationally recognised standards, thereby affecting the comparability and consistency of the financial statements.

Non-compliance with reconciliation requirements under Ind AS 101

4.7 Ind AS 101 (First-time Adoption of Ind AS) mandates that entities explain how the transition from previous Generally Accepted Accounting Principles (GAAP) to Ind AS affected their reported balance sheet, financial performance, and cash flows. To comply with this requirement, an entity's first Ind AS-compliant financial statements must include reconciliations of its equity and total comprehensive income. These reconciliations are required to provide sufficient detail to enable users to understand the material adjustments made to the Balance Sheet, Statement of Profit and Loss, and Statement of Cash Flows.

² Latest finalised financial statements of the SPSE.

Audit observed that out of the 25 SPSEs that had adopted Ind AS, 19 SPSEs did not prepare the required reconciliation statements in their first Ind AS-compliant financial statements.

The non-preparation of the required reconciliation statements by these 19 SPSEs in their first Ind AS-compliant financial statements constituted a clear violation of the mandatory provisions of Ind AS 101. This not only undermined the transparency of the transition process from GAAP to Ind AS but also deprived stakeholders of critical comparative information necessary to understand the material adjustments made to the Balance Sheet, Statement of Profit and Loss, and Statement of Cash Flows.

Impact of the adoption of Ind AS on selected key areas

4.8 The adoption of Ind AS can affect the reported figures for profit/loss, revenues, total assets, and net worth. The extent and direction of impact depend on the options exercised by the SPSEs at the time of adoption of Ind AS. The impact of the adoption of Ind AS on profit after tax, revenues, total assets, and net worth of the 25 SPSEs that adopted Ind AS³ is discussed in the succeeding paragraphs:

(A) Impact on Profit after Tax

Profit after Tax (PAT) refers to the amount that remains after an entity has paid off all its operating and non-operating expenses, other liabilities, and taxes. This profit is what is distributed by the entity to its shareholders as dividends or is kept as retained earnings in reserves. Changes in the valuation of various items of revenue, expenses, assets, and liabilities consequent to the adoption of Ind AS can materially affect the PAT of an entity.

Audit observed that, out of the 25 SPSEs, adoption of Ind AS had no impact on the PAT of 15 SPSEs. In the remaining 10 SPSEs, there was a total net impact of ₹ 162.58 crore on PAT, ranging from (-) ₹ 132.03 crore to ₹ 244.23 crore, due to the adoption of Ind AS, as summarised in **Table 4.2**.

Table 4.2: Net impact on Profit After Tax

Sl. No.	Name of the SPSE	Impact on PAT		Net Impact
		Increase (+)	Decrease (-)	
1.	Uttar Pradesh Power Corporation Limited	8.25	-125.27	-117.02
2.	Purvanchal Vidyut Vitran Nigam Limited	263.50	-19.27	244.23
3.	Pashchimanchal Vidyut Vitran Nigam Limited	22.34	-17.80	4.54
4.	Madhyanchal Vidyut Vitran Nigam Limited	72.97	-2.01	70.96
5.	Dakshinanchal Vidyut Vitran Nigam Limited	108.44	-20.29	88.15
6.	Kanpur Electricity Supply Company Limited	1.41	-0.24	1.17
7.	Uttar Pradesh Power Transmission Corporation Limited	0.00	-132.03	-132.03
8.	Almora Magnesite Limited	0.44	-0.03	0.41
9.	U.P. Metro Rail Corporation Limited	1.63	-0.66	0.97
10.	Noida Metro Rail Corporation Limited	1.56	-0.36	1.20
Net cumulative impact				162.58

Source: Compiled based on the first Ind AS-compliant financial statements of the SPSEs and information provided by the SPSEs

³ Except Moradabad Smart City Limited that had adopted Ind AS from its first financial statements for the year 2018-19, and therefore, had no impact on profit after tax, revenues, total assets, and net worth due to the adoption of Ind AS.

The factors/reasons contributing to the increase or decrease in various items of income and expenses, and their net impact on PAT, are detailed in **Appendix 4.4**.

(B) Impact on revenue from operations

As per Ind AS 18 (Revenue), revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in an increase in equity, other than increases relating to contributions from equity participants. Changes in the valuation of revenue from operations can materially affect the amount of revenue from operations of an entity.

Audit observed that out of the 25 SPSEs, adoption of Ind AS had no impact on the revenue from operations of 19 SPSEs. In case of the remaining six SPSEs, there was a total net impact of (-) ₹ 35.70 crore, ranging from (-) ₹ 40.07 crore to ₹ 3.30 crore, on revenue from operations due to the adoption of Ind AS, as summarized in **Table 4.3**.

Table 4.3: Net impact on revenue from operations

(₹ in crore)						
Sl. No.	Name of the SPSE	Revenue from operations as per Ind AS	Revenue from operations as per GAAP	Net Impact		
1.	Pashchimanchal Vidyut Vitran Nigam Limited	11,994.79	11,991.49	3.30		
2.	Madhyanchal Vidyut Vitran Nigam Limited	6,634.55	6,635.61	-1.06		
3.	Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited	9,180.77	9,178.66	2.11		
4.	Uttar Pradesh Power Transmission Corporation Limited	1,642.57	1,682.64	-40.07		
5.	Almora Magnesite Limited	28.69	28.71	0.02		
6.	Uttar Pradesh Metro Rail Corporation Limited	0.0043	0.00	0.0043		
Net cumulative impact				-35.70		

Source: Compiled based on the first Ind AS-compliant financial statements of the SPSEs and information provided by the SPSEs

The increase/decrease in revenue from operations was due to adjustments for prior period items and changes in the method of revenue recognition.

(C) Impact on total assets

Assets are tangible objects or intangible rights owned by an entity and carrying probable future benefits. The value of assets can be affected after the adoption of Ind AS due to differences in the accounting methods prescribed under Ind AS as compared to GAAP.

Audit observed that out of the 25 SPSEs, adoption of Ind AS had no impact on the value of total assets of 19 SPSEs. In the remaining six SPSEs, there was a total net impact of ₹ 1,879.31 crore on the value of total assets, ranging from (-) ₹ 1,064.12 crore to ₹ 8.55 crore, due to the adoption of Ind AS, as summarized in **Table 4.4**.

Table 4.4: Net impact on total assets

(₹ in crore)

Sl. No.	Name of the SPSE	Impact on total assets		
		Increase	Decrease	Net Impact
1.	Uttar Pradesh Power Corporation Limited	8.60	-0.05	8.55
2.	Purvanchal Vidyut Vitran Nigam Limited	-	-1,064.12	-1,064.12
3.	Pashchimanchal Vidyut Vitran Nigam Limited	-	-747.12	-747.12
4.	Uttar Pradesh Power Transmission Corporation Limited	48.25	-124.17	-75.92
5.	Almora Magnesite Limited	1.19	-1.16	0.03
6.	Noida International Airport Limited	3,605.30	-3,606.03	-0.73
Net cumulative impact				-1,879.31

Source: Compiled based on the first Ind AS-compliant financial statements of the SPSEs and information provided by the SPSEs

The factors/reasons contributing to the increase/decrease in various items of assets are detailed in **Appendix 4.5**.

(D) Impact on net worth

Section 2(57) of the Companies Act, 2013 defines net worth as the aggregate value of paid-up share capital, free reserves⁴, and the securities premium account, after deducting accumulated losses, deferred expenditure, and miscellaneous expenditure not written off, based on the audited balance sheet. The net worth can be affected after the adoption of Ind AS due to differences in the accounting methods prescribed under Ind AS as compared to GAAP.

Audit observed that out of the 25 SPSEs, adoption of Ind AS had no impact on the net worth of 14 SPSEs. In the remaining 11 SPSEs, 10 SPSEs experienced a decrease in net worth by ₹ 244.33 crore, while one SPSE registered an increase of ₹ 150.85 crore, indicating a total net impact of (-) ₹ 93.48 crore, as summarized in **Table 4.5**.

Table 4.5: Net impact on net worth

(₹ in crore)

Sl. No	Name of the SPSE	Net worth as per Ind AS	Net worth as per GAAP	Net Impact
1.	Uttar Pradesh Power Corporation Limited	3,798.83	3,945.85	-147.02
2.	Purvanchal Vidyut Vitran Nigam Limited	-5,138.72	-5,289.57	150.85
3.	Pashchimanchal Vidyut Vitran Nigam Limited	-40,69.12	-4,064.37	-4.75
4.	Madhyanchal Vidyut Vitran Nigam Limited	-2,120.88	-2,120.74	-0.14
5.	Dakshinanchal Vidyut Vitran Nigam Limited	-10,148.64	-10,128.35	-20.29
6.	Kanpur Electricity Supply Company Limited	-2,248.76	-2,248.50	-0.26
7.	Uttar Pradesh Power Transmission Corporation Limited	9,121.23	9,189.74	-68.51
8.	Almora Magnesite Limited	4.45	4.54	-0.09
9.	Noida Metro Rail Corporation Limited	291.46	291.82	-0.36
10.	Noida International Airport Limited	3,603.28	3,604.38	-1.09
11.	Uttar Pradesh Jal Vidyut Nigam Limited	290.09	291.91	-1.82
Net cumulative impact				-93.48

Source: Compiled based on the first Ind AS-compliant financial statements of the SPSEs and information provided by the SPSEs

⁴ Free reserves do not include reserves created out of revaluation of assets, write-back of depreciation, and amalgamation.

The decrease in net worth in 10 SPSEs was due to an increase in the amount of accumulated losses after the adoption of Ind AS and *vice versa*.

Conclusion

The adoption of Ind AS, leading to changes in the financial reporting framework, had a positive cumulative impact on profit after tax (₹ 162.58 crore), and a negative cumulative impact on revenue from operations (₹ 35.70 crore), total assets (₹ 1,879.31 crore), and net worth (₹ 93.48 crore) as per their first Ind AS-compliant financial statements.