

Query No. 19

Subject: *Accounting for surcharge on delayed payment.*¹

A. Facts of the Case

1. A public sector undertaking (hereinafter referred to as ‘the company’) owned by the Government of India comes under the administrative control of the Ministry of Coal. The company is engaged in the business of mining of lignite and generation of power.

2. The company has entered into Power Purchase / Sale Agreement with different Electricity Boards (EBs) and DISCOMs. Power is being sold to the said DISCOMs as and when generated. However, billing for the said power sale takes place once in a month. As per the Tariff Regulation of Central Electricity Regulatory Commission (CERC), the purchaser has a right to pay the bill value within 45 days from the date of receipt of bill. In case the purchaser fails to pay the power bill within the allowed 45 days’ period, delayed payment surcharge is applicable at a specified rate i.e., 1.5% per month. Similarly, if the purchaser pays the bill within 45 days’ period, graded rebate is also allowed based on the date of payment of the bill. Both delayed payment surcharge as well as rebate are as per the tariff (pricing) Guidelines issued by the regulator (CERC).

3. *Accounting for Surcharge*

As per the accounting practice, the rebate allowed to the power purchaser, is adjusted from the sales revenue. However, the surcharge billed / collected is considered as other revenue.

4. The querist has stated that considering the accounting principles and the relevant accounting standards (Ind AS 115), if the revenue activities relate to the main business of the company, the same has to be classified under ‘Operating Revenue’.

5. The querist has also stated that the company has also checked the practice followed by other PSUs in this regard. It has been observed that, some of the PSUs operating in the power business are considering the same as ‘operating income’ whereas some other companies are considering the same as ‘other income’. There is no consistency in the accounting treatment of the said element of revenue among the PSUs of the country.

B. Query

6. In this regard, the querist has sought the opinion from the Expert Advisory Committee of the Institute of Chartered Accountants of India on the following issue:

“When the product pricing guidelines are issued by a regulator allowing provisions both for early payment and late payment of the billed amount, whether the late payment surcharge (billed / received) from the Electricity Boards should be considered under the head ‘Operating Revenue’ or as ‘Other Income’ as per applicable Accounting Standards (Ind AS).”

C. Points considered by the Committee

7. The Committee notes that the basic issue raised in the query relates to presentation and disclosure of late payment surcharge billed to/received from the Electricity Boards in the statement of profit and loss of the company. The Committee has, therefore, considered only this issue and has not considered any other issue that may arise from the Facts of the Case, such as, presentation in the statement of cash flows, accounting for the early payment rebate, determination of transaction price, separation of financing component or other aspects for

¹ Opinion finalised by the Committee on 21.11.2019.

revenue recognition/ measurement under Ind AS 115, initial recognition/measurement of the receivables, detailed aspects related to calculation of interest income, timing of recognition, applicability of Ind AS 114, 'Regulatory Deferral Accounts' and Ind AS 116, 'Leases' (as the same have not been specifically referred to by the querist in the extant case), etc. At the outset, the Committee wishes to point out that the opinion expressed hereinafter is in the context of Indian Accounting Standards, notified by the Companies (Indian Accounting Standards) Rules, 2015 as amended from time to time. Further, the opinion issued is purely from accounting perspective and not from the perspective of legal interpretation of Tariff Regulations issued by the CERC.

8. With regard to the presentation of late payment surcharge, the Committee notes the following clauses from Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2019:

“59. Late payment surcharge: In case the payment of any bill for charges payable under these regulations is delayed by a beneficiary or long term customers as the case may be, beyond a period of 45 days from the date of presentation of bills, a late payment surcharge at the rate of 1.50% per month shall be levied by the generating company or the transmission licensee, as the case may be.”

From the above, the Committee notes that the terms for late payment from the day of presentation of bills to customers are expressly provided in the Tariff Regulations, which are binding on both the buyer as well as the company.

9. In the extant case, the Committee notes from the Tariff Regulations, as reproduced above that the amount of consideration varies due to difference in timing of payments, for example, if customer paid within the prescribed period, which is 45 days from the day of presentation of bills, no late payment surcharge would be charged from the customers, whereas if the customer pays beyond the prescribed period, late payment surcharge would be levied. Thus, it appears that the late payment surcharge in the extant case is directly linked to the timing of payment by the customers and is to compensate the entity for the time value of money. Therefore, the Committee is of the view that the late payment surcharge is of the nature of finance income in the extant case and should be accounted for and presented accordingly in the financial statements. The Committee also notes that the company is not an NBFC (Non-banking Financial Company) and thus, the Division III of Schedule III to the Companies Act, 2013 is not relevant. Therefore, as far as presentation of the late payment surcharge is concerned, the Committee notes the following paragraphs from the Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013, issued by the ICAI:

“9.2 Other income

The aggregate of 'Other income' is to be disclosed on face of the Statement of Profit and Loss. As per Note 5 of General Instructions for the Preparation of Statement of Profit and Loss 'Other Income' shall be classified as:

- (a) Interest Income;
- (b) Dividend Income;
- (c) Other non-operating income (net of expenses directly attributable to such income).

Ind AS 107, para 20(b) requires total interest revenue calculated using the effective interest method for financial assets that are measured at amortized cost and that are measured at FVOCI, to be shown separately.

Accordingly, ‘Interest Income’ for financial assets measured at amortized cost and for financial assets measured at FVOCI, calculated using effective interest method, should be presented in separate line items under ‘Other Income’.”

From the above and considering the nature of late payment surcharge as that of a finance income, the Committee is of the view that the late payment surcharge in the extant case should be presented as ‘other income’.

D. Opinion

10. On the basis of the above, the Committee is of the view that the late payment surcharge in the extant case should be presented as ‘other income’, as discussed in paragraph 9 above.
