

Query No. 4

Subject: Accounting treatment of security deposit under Rajiv Gandhi Gramin LPG Vitrak Yojana (RGGLVY).¹

A. Facts of the Case

1. A company is a Government company (hereinafter referred to as the ‘company’ or the ‘corporation’) within the meaning of section 2(45) of the Companies Act, 2013. The shares of the company are listed with recognised stock exchanges. The company is engaged in the business of refining of crude oil and marketing of petroleum products. It has two refineries and lube blending/filling plants. The corporation also has depots, installation and LPG plants across India, besides having administrative offices at Delhi, Chennai, Kolkata, Mumbai and other major cities.

2. The company at the time of releasing a new LPG connection to its consumers, issues cylinder and pressure regulator on returnable basis against a security deposit. The cylinders/pressure regulators are capital items, procured by the company and are shown as ‘Property, Plant and Equipment’ (PPE) in the balance sheet. The security deposit is refundable to consumer only at the time of surrender of connection along with cylinder and pressure regulator and till such time, the aforesaid security deposit amount is kept under ‘Deposits for containers’ under ‘Other Current Financial Liabilities’.

3. The querist has informed that as a part of Vision 2015 of the Ministry of Petroleum and Natural Gas (MOP&NG) for the oil sector, ‘Customer Satisfaction & Beyond’ finalized on 26th June 2009, the scheme as given under has been formulated for increasing the coverage of LPG in the country by leveraging the corporate social responsibility (CSR) fund of oil public sector undertaking (PSUs):

- a) Provision of common LPG kitchen facilities in villages.
- b) Release of one time grant to BPL (below poverty line) families in the rural areas for release of new LPG connection under Rajiv Gandhi Gramin LPG Vitarak Yojana (RGGLVY).

Under the scheme mentioned above:

- a) One-time financial assistance will be given from the CSR pool account to meet the cost of security deposit for a cylinder and pressure regulator. These connections will be issued under Rajiv Gandhi Gramin LPG Vitrak Yojana (RGGLVY) scheme to BPL families. Contribution in CSR pool has been done by oil public sector undertakings.
- b) The company will receive the amount of security deposit (against the issue of LPG cylinder and regulator issued to BPL families) from the pool account managed for this purpose.

These connections are issued without deposit from BPL families which otherwise would have been collected from a normal customer; however the security deposit amount is being received from the pool account.

¹ Opinion finalised by the Committee on 9.4.2019.

4. The querist has informed that presently, the following accounting treatment is being adopted:

a) *At the time of issuance of LPG connection with one LPG cylinder and regulator to eligible BPL family:*

The funds received from pool accounts represent as security deposit against the LPG cylinders and pressure regulators issued to the consumers. The amount is refundable/adjustable by issuing new connection to another eligible customer when the customer surrenders the connection along with the cylinder/pressure regulator and represents obligation endowed on the company. As per extracts given below from Indian Accounting Standard (Ind AS) 32 'Financial Instruments',

“A financial liability is any liability that is:

(a) a contractual obligation:

(i) to deliver cash or another financial asset to another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

...”

Security deposit received from customers for cylinder and pressure regulator is being shown as 'Security Deposit' under Other Current Financial liabilities.

Accordingly, the amount received from the pool account also representing as security deposit has been treated as financial liability and shown under other current financial liabilities.

b) *At the time of surrender of connection by surrendering the LPG cylinder and regulator:*

At the time of issue of LPG cylinder, the company takes security deposit from the customer against the LPG cylinder (financial asset). In case of LPG connections issued to BPL families under Rajiv Gandhi Gramin LPG Vitarak Yojana (RGGLVY) scheme, at the time of surrender of cylinder and regulator, the company is supposed to issue one more connection to eligible BPL family and the existing security deposit is to be treated as security deposit for the new consumer.

c) *At the time of surrender of connection without surrender of cylinders/ regulator:*

In case any of the equipment (cylinder or pressure regulator) is lost, then consumer has to pay tariff/penal rate as applicable. Thus, loss of cylinder/ regulator is recovered from the consumers or adjusted with the security deposit held by the company and no loss is borne by the company on this account. This tariff or penal rate is recognised as income after adjusting the PPE value in the books of account for the cylinder/regulator and value of PPE will be reduced accordingly. The recoverable amount will be adjusted with the security deposit held with the company and accordingly, the other current financial liabilities will be reduced.

B. Query

5. In view of the facts explained above, opinion of the Expert Advisory Committee has been sought on the following issues:

- (i) Is there any separate disclosure requirement as per Ind ASs for connections issued under Rajiv Gandhi Gramin LPG Vitarak Yojana (RGGLVY) scheme and the amount received from Pool account representing as security deposits under other current financial liabilities?
- (ii) Whether accounting treatment given for security deposits received from Pool account for connections issued under Rajiv Gandhi Gramin LPG Vitarak Yojana (RGGLVY) scheme is appropriate as per Ind ASs. If not, what is the appropriate accounting treatment?
- (iii) In case of surrender of connection without returning the LPG cylinder by Rajiv Gandhi Gramin LPG Vitarak Yojana (RGGLVY) customer, whether the accounting treatment as mentioned in para 4(c) above is appropriate.

C. Points considered by the Committee

6. The Committee notes that the basic issue raised in the query relates to accounting treatment followed by the company in relation to LPG connections issued under Rajiv Gandhi Gramin LPG Vitarak Yojana (RGGLVY) Scheme. The Committee has, therefore, considered only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, accounting treatment of cylinder and regulators as property, plant and equipment, accounting for CSR funds or adjustment, if any, required therein due to granting of connection to the customer or on surrender of connection, accounting for equipments, such as stoves, etc. provided under RGGVY Scheme, accounting treatment of penal charges collected from customers, measurement and consequential discounting, if any, in respect of the security deposits received and any other related matters. Further, the opinion expressed hereinafter is purely from accounting perspective and not from legal perspective, such as, legal interpretation of RGGLVY scheme or any related circular of Ministry/GoI in this regard.

7. With regard to the classification of security deposits received in connection with LPG connection issued under RGGLVY, as current financial liabilities, the Committee notes the following definition of 'Current Liability' as per paragraph 69 of Ind AS 1, 'Presentation of Financial Statements', notified under the Companies (Indian Accounting Standards) Rules, 2015 (hereinafter referred to as the 'Rules'):

“69 An entity shall classify a liability as current when:

- (a) it expects to settle the liability in its normal operating cycle;**
- (b) it holds the liability primarily for the purpose of trading;**
- (c) the liability is due to be settled within twelve months after the reporting period; or**

- (d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period (see paragraph 73). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.**

An entity shall classify all other liabilities as non-current.”

From the above, the Committee notes that, paragraph 69(d) specifically states that if the entity does not have an unconditional right to defer the settlement of liability beyond 12 months, then the same shall be classified as current liability. The Committee also notes that paragraph 3 of General Instructions for Preparation of Balance Sheet Under Division II - Ind AS Schedule III to the Companies Act, 2013 provides similar definition of the current liability. In the extant case, the Committee notes that the querist has specifically stated in paragraph 4 above that the security deposit against LPG cylinders and pressure regulators is refundable/adjustable by issuing new connection to another eligible customer when the customer surrenders the connection. Further, the Committee notes following clauses from RGGLVY (a copy of which has been supplied by the querist for the perusal of the Committee):

“6 ... no refund of security amount will become due on surrender of the connection, as the connection would be released against one time grant by the Government.”

“13.(g) Surrender of LPG connection released under this scheme:

If a LPG connection released under this scheme is surrendered by a beneficiary, the CSR fund (security deposit amount) so available, will be utilized by OMCs towards subsidising another eligible beneficiary.”

On a reading of the above clauses, it appears that on surrender of connection by the customer, security deposit amount becomes refundable by the company; although same is not refunded in cash to the customers rather used for providing new connection to another customer. Thus, the Committee is of the view that as far as the company is concerned, due to the fact that security deposit amount is received from Pooled CSR fund of oil PSUs does not change the right to defer settlement of the liability for atleast twelve months after the reporting period. Accordingly, since the company in the extant case does not have an unconditional right to defer such settlement, the same should be classified as ‘current liability’ as per the aforesaid definition.

8. With reference to the classification of consumer deposits as a financial liability, the Committee notes the following paragraphs of Ind AS 32, ‘Financial Instruments: Presentation’, notified under the Rules:

“11 A *financial liability* is any liability that is:

(a) a contractual obligation:

(i) to deliver cash or another financial asset to another entity; or

**(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
...”**

- “13 In this Standard, ‘contract’ and ‘contractual’ refer to an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law. Contracts, and thus financial instruments, may take a variety of forms and need not be in writing.
- 14 In this Standard, ‘entity’ includes individuals, partnerships, incorporated bodies, trusts and government agencies.”

With regard to the classification of the deposits collected as a financial liability, the Committee notes that since on surrender of connection, the deposits have to be refunded by the company by adjusting against new connection to another eligible customer as discussed in paragraph 7 above, there exists a contractual obligation to exchange one financial liability with another in terms of paragraphs 11 and 13 of Ind AS 32, reproduced above. Accordingly, the same should be classified as ‘financial liability’.

9. With regard to accounting treatment to be followed by the company in case of surrender of connection without returning the LPG cylinder, the Committee notes paragraph 67 of Ind AS 16, ‘Property, Plant and Equipment’ and paragraphs 3.3.1 and 3.3.3 of Ind AS 109, ‘Financial Instruments’, notified under the Rules, which state as follows:

Ind AS 16

- “67 The carrying amount of an item of property, plant and equipment shall be derecognised:**
- (a) on disposal; or**
 - (b) when no future economic benefits are expected from its use or disposal.”**

Ind AS 109

“3.3.1 An entity shall remove a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires.”

“3.3.3 The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.”

From the above, the Committee notes an item of property, plant and equipment should be derecognised when no future economic benefits are expected from its use or disposal. In the extant case, in case cylinders and regulators are not returned by the consumers, no future economic benefits are expected from its use and disposal and therefore, the value of property, plant and equipment in respect of the same should be derecognised. Further, with regard to security deposit which is in the nature of financial liability, the Committee notes that paragraph 3.3.1 of Ind AS 109 states that a financial liability is to be removed when the obligation specified in the contract is discharged/cancelled/expires. Accordingly, in the extant case, when the cylinders are not returned, if the obligation of the company to refund such deposit expires, the security deposit in respect of such customers should also be derecognised in accordance with the requirements of Ind AS 109.

10. Incidentally, the Committee notes paragraph 61 of Ind AS 1, 'Presentation of Financial Statements', notified under the Rules, which states as follows:

“61 Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

(a) no more than twelve months after the reporting period, and

(b) more than twelve months after the reporting period.”

From the above, the Committee is of the view that for better presentation and disclosure, for the current liability in respect of security deposit, the company should disclose the amount expected to be settled in no more than twelve months and more than twelve months after the reporting period.

D. Opinion

11. On the basis of the above, the Committee is of the following opinion on the issues raised in paragraph 5 above:

(i) and (ii) The classification made by the company for deposits received by it from its LPG consumers towards supply of cylinders and regulators as current financial liability is in accordance with the requirements of Ind ASs, as discussed in paragraphs 7 and 8 above. However, if there are any disclosure requirements arising from RGGLVY scheme, the same should also be complied with.

(iii) In case of surrender of connection without returning the LPG cylinder by the RGGLVY customer, the company should derecognise/reduce the value of PPE in respect of LPG cylinders for such customers as discussed in paragraph 9 above. Further, the security deposit in respect of such customers should also be derecognised if the obligation of the company to refund such deposits expires, in accordance with the requirements of Ind AS 109, as discussed in paragraph 9 above.
