

Query No. 24

Subject: Presentation of regulatory deferral account balance in the Statement of Profit and Loss under Ind ASs.¹

A. Facts of the Case

1. A Company (hereinafter referred to as ‘the Company’) is a public limited company, incorporated and domiciled in India and is primarily engaged in the business of distribution of electricity. The Company was set up in terms of Delhi Electricity Reforms (Transfer Scheme) Rules 2001. The Company is a subsidiary of ABC Limited which holds 51% equity shares and controlling stake and 49% equity shares are held by XYZ Limited. The principal business of the Company is regulated by the Delhi Electricity Regulatory Commission (DERC). The Company is governed by the Multi-year tariff (MYT) regulations issued by the DERC for respective control period and annual tariff is determined by regulator based on the aggregate revenue requirement (ARR) filed by the Company and other applicable regulations in place. The Company has adopted Indian Accounting Standards (Ind ASs) during the 1st phase, i.e., from April 1, 2016.

2. The Company, being a power distribution company, a regulated entity, the retail supply tariff is determined by the regulator where power purchase cost, the major component of tariff, is allowed on actual basis and operation and maintenance (O&M) cost is allowed on normative basis. The return on equity (RoE) is allowed on investment in the capital expenditure programme duly approved by the regulator subject to achievement of certain performance parameters. One of the components of tariff determined by the regulator is income-tax on RoE. The prevalent regulation of allowance of income-tax as per Delhi Electricity Regulatory Commission (DERC) Regulations, 2017 has been reproduced by the querist as under:

“Clause No. 72. **Tax on Return on Equity:** The base rate of return on equity as specified by the Commission in the Business Plan Regulations shall be grossed up with the effective tax rate of the respective financial year. For this purpose, the effective tax rate shall be considered on the basis of actual tax paid vis-à-vis total income of the Utility in the relevant financial year in line with the provisions of the relevant Finance Acts. The actual tax on other income stream shall not be considered for the calculation of “*effective tax rate*”:

Provided that if the rate of return on equity for a Control Period is allowed on pre-tax basis, then income tax on the return on equity shall not be allowed separately as a pass through in ARR;

Provided further that no amount shall be considered towards tax exceeding the actual amount of tax paid by the Corporate entity of the Utility as an assessee.

Clause No. 73. Rate of return on equity shall be rounded off to three decimal places and shall be computed as per the formula given below:

Rate of pre-tax return on equity = Base rate / (1-t)

Where “t” is the effective tax rate in accordance with Regulation 72 and shall be calculated at the beginning of every financial year based on the estimated profit and tax to be paid by the Utility on pro-rata basis by excluding the other income stream:

Provided that wherever the Utility pays Minimum Alternate Tax (MAT), “t” shall be considered as MAT rate including surcharge and cess.”

¹ Opinion finalised by the Committee on 18.1.2021 to 20.1.2021.

3. From the above Regulations, the querist has observed that according to the business model of electricity discom, the income tax is allowed on effective tax rate basis and effective tax rate is computed as actual tax paid vis-à-vis total income of the Utility and there is no separate regulation for allowance of deferred tax liability. The importance of highlighting the above regulation and the point to be noted here is that creation of deferred tax liability to comply with accounting standard does not entitle the Company for recovery of the same through tariff mechanism. It is allowed only when deferred tax gets converted into actual tax at a future date.

4. The Company, being the regulated entity is entitled for assured RoE and any income tax liable on the RoE is a pass through in the regulation to protect RoE. Therefore, till date, based on some expert opinion from the CA fraternity and prevailing practice in the industry, the Company was creating deferred tax liability to comply with accounting standard and adjusting the same as recoverable from consumers in future tariff below the PBT, hence PBT was not impacted.

5. The Company stated that the rationale for showing the deferred tax net of recoverable amount is the fact that this expense is not going to impact the profitability/ROE which is assured by the Regulator and any future tax liability on account of temporary differences will be allowed by the Regulator when the deferred tax will get converted into actual tax. The presentation adopted by the Company for disclosure of deferred tax in financial statement is given below:

Presentation in the Statement of Profit and Loss: Rs. in Lakhs

| | | |
|-----------------------------------|--------|------|
| Tax Expense | | |
| (i) Current Tax | | XXXX |
| (ii) Deferred Tax | | |
| Provision for the year | XXXX | |
| Less: Adjustable in future tariff | (XXXX) | - |

Presentation in Balance Sheet: Rs. in Lakhs

| | |
|------------------------------------|--------|
| Deferred Tax Liabilities | XXXX |
| Less : Adjustable in future tariff | (XXXX) |
| Net Amount | - |

6. The above presentation has been followed by the Company upto the financial year (F.Y.) 2018-19. According to the querist, this treatment is supported by the provisions of paragraph 33 of Ind AS 1, 'Presentation of Financial Statements', which allows offsetting of income and expense, assets and liabilities when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. In the present case, the deferred tax liability and the deferred asset in the form of adjustment against future tariff are related to each other and the netting thereof truly reflects the substance of the transaction. Accordingly, the deferred asset (adjustable in future tariff) has been deducted from deferred tax expense with adequate disclosure in the notes to accounts. Also, the deferred tax liability has been shown net of deferred asset (adjustable in future tariff) in the Balance Sheet with adequate disclosure thereof.

7. The querist has stated that with effect from financial year 2019-20, the Company has changed the above practice of netting deferred tax liability against deferred asset (adjustable in future tariff) as per an earlier EAC opinion (published as Query No. 9, Volume No. XXXVIII of the Compendium of Opinions), wherein it has been opined to treat the deferred tax amount which is shown as recoverable from future tariff as part of regulatory deferral account balance.

8. The querist has pointed out that while deciding the referred opinion, some of the issues which have been mentioned here have not been taken into consideration, therefore, the opinion of Committee is being sought on the accounting treatment followed by the Company upto F.Y. 2018-19.

9. The querist has requested the Committee to take note of the below mentioned points and suggest whether the treatment followed by the Company upto F.Y. 2018-19 is in line with the Ind AS or the Company is right in changing its accounting treatment as per the earlier EAC opinion:

Point No. 1

Deferred tax is recoverable in future in the form of higher effective tax rate which will be allowed by DERC in future years and not in the form of additional claim of deferred tax through regulatory asset. To neutralise the impact of deferred tax computed as per the requirements of Ind AS 12, the Company was creating a receivable in the form of deferred asset without showing it as part of regulatory asset, being immediate recovery not allowed. In order to treat this amount as part of regulatory asset, it should satisfy the definition of regulatory asset. Therefore, it should first be examined as to whether this amount comes under the ambit of regulatory asset as per the provisions of Ind AS 114, 'Regulatory Deferral Accounts' and Guidance Note on Accounting for the Rate Regulated Activities, issued by the Institute of Chartered Accountants of India (ICAI) (hereinafter referred to as 'the Guidance Note').

As per the Guidance Note, regulatory asset is an entity's right to recover fixed or determinable amounts of money ... as a result of the actual or expected actions of its regulator under the applicable regulatory framework. Deferred tax receivable may not satisfy the definition of regulatory asset because the Company's right to recovery of deferred tax will materialise at a future date when the deferred tax will convert into actual tax and as on date, it is premature to consider it as part of regulatory asset. As on date, it is a notional amount which is being recognised to comply with the provisions of Ind AS 12. It is certain that the actual tax amount will be recovered in future but creation of deferred tax is not immediately recoverable or when it will be recovered is not certain thus at the current date, it does not satisfy the definition of regulatory asset. Further as per the Guidance Note, a regulatory asset can be recognised when the regulatory framework provides for the recovery of the incurred costs and the entity has incurred such costs. In case of the Company, the deferred tax is being created to comply with the requirement of accounting standard but no actual cost has incurred and accordingly, the regulatory framework does not allow for recovery of deferred tax immediately upon recognition of the same to comply with the accounting standard requirement. It is only when this deferred tax converts into actual tax that it will be treated as cost incurred by the Company and allowed in the form of effective tax rate. In such a case, the Company believes that deferred tax recoverable does not satisfy the definition of regulatory asset.

Point No. 2

As per Ind AS 114, 'Regulatory Deferral Accounts', an entity is permitted to apply the requirements of the Standard in its first Ind AS financial statements if and only if it:

- (a) conducts rate regulated activities; and
- (b) recognised amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP.

Further, an entity shall apply the requirements of this standard in its financial statements for subsequent periods if and only if, in its first Ind AS financial statements, it recognised regulatory deferral account balances by electing to apply the requirements of this standard.

The above explanation clearly states that Ind AS 114 is applicable only to those entities which fall under rate regulation and recognising the regulatory deferral account balance in accordance with the Guidance Note on Accounting for Rate Regulated Activities. The querist has pointed out that the provisions of Ind AS 114 may not apply to generation/transmission companies in view of the justification provided under Example 1 of Appendix 1 in the Guidance Note. The explanation provided therein states that the Guidance Note covers 'cost of service' regulation only, wherein the excess cost or excess revenue in current period is recovered through adjustment in future tariff to be charged from customers for the services to be provided in future. However in case of generation or transmission companies the recovery against any shortfall or excess revenue is charged from the original consumer without impacting the future tariff to be charged from customers. This is unlike distribution business wherein the regulatory asset/liability adjustment is done through revision of future tariff and the recovery is made from customers on revised tariff for services to be provided in future only. Since the power distribution business regulatory scenario is different than generation or transmission regulatory scenario therefore, the Committee may like to suggest whether the referred EAC opinion would be applicable to the Company because the Company is into power distribution business while the earlier opinion was meant for generation/transmission company.

Point No. 3

The querist has further submitted that future claim with regard to any allowable item is not a regulatory asset like ROCE (Return on capital employed) is allowed on yearly basis over the useful life of fixed assets though the claim is established in the year of purchase of capital asset. It becomes part of regulatory asset only in the year when the ROCE claim is considered by regulator for determination of tariff over the period of usage of that asset. Therefore, the governing principle is that an item becomes part of regulatory deferral account balance only in that particular year when it is eligible for allowance as per prevalent regulations and not prior to that. Similarly, in the case of deferred tax though the right to recover the amount is established when the same is accounted for in the books however it will become part of regulatory asset in the year when the actual tax is paid and acknowledged by the Regulator, as the prevailing tariff regulations don't permit recovery of the same as part of the tariff.

Point No. 4

In addition, there are implications of carrying cost also if the Company takes the deferred tax amount as part of Regulatory Deferral Account balance. As per DERC Regulations 2017, carrying cost is the cost for funding of regulatory asset and the same is allowed to utility on the average outstanding balance of regulatory asset. If deferred tax recoverable is shown as part of regulatory asset, then it may also attract carrying cost; however this portion of regulatory asset is notional and does not require any funding. Therefore, it may also contravene with the provisions of carrying cost. As per the current practice, the entire amount of regulatory asset is eligible for carrying cost and

is duly acknowledged (barring any litigation items) by the regulatory commission for the purpose of allowing carrying cost. Till date, the Regulator is not treating deferred tax amount as part of tariff and regulatory asset for the purpose of allowing carrying cost and this will further create circular notional regulatory asset and increase difference between the Company's claim of regulatory asset vis-à-vis the amount acknowledged by the regulator. This will further lead to over-statement of regulatory asset balance in the books of account.

Point no. 5

In the regulatory scenario, the recoverability of deferred tax will be through higher tax allowance in future years however disclosing this amount as part of regulatory asset will lead to immediate accrual of income which attracts income tax to be payable on such income. Thus, the Company is turning into a situation where income tax is being paid on deferred tax recognised in regulatory deferral account without entitlement of the same as tariff regulation does not have any provision for allowance of the same. The current deferred tax opinion results into a situation where (considering the current scenario) for a certain number of years, the Company is being made to pay additional tax without practically having any entitlement for recovery of the same. This income will be realised (without carrying cost) at a later stage may be after 5-6 years, however the tax outflow is immediate and against the matching principle where recovery of deferred tax is recognised on notional basis but outflow of tax on deferred tax is on actual basis which also imposes extra financial burden and lot of hardship for the already stressed power discoms. As per the opinion of the Company, tax can be accrued on any income which gives right to bill/recover (which is not there in the present case as immediate recovery of deferred tax is not allowed in tariff regulation) and income tax can't be accrued merely just because of accounting requirement (in the present case if deferred tax is shown as part of regulatory deferral account above the PBT, it gives rise to current Income Tax). The accrual of income tax should be corresponding to income generation as per prevailing tariff regulation. There should not be a situation where the Company is liable to pay immediate income tax on an amount while the period is uncertain in which realisation of deferred tax will happen. This will also stuck the Company's cash (in the form of income tax) for a long time without any returns.

Point No. 6

Apart from the above justification, in case the Company continues to follow the practice as suggested in the referred EAC opinion, it will alter the profitability (PAT) of the Company. During initial period, when the deferred tax liability is accrued, the profit of the Company goes down due to additional burden of income tax on deferred tax recovery which is disclosed as part of regulatory deferral account balance and once deferred tax liability starts reversing the profit will go up because it will lead to reduction in regulatory deferral account balance and consequent income tax. Practically, there is no change in the actual performance of the Company, however due to adoption of practice suggested by the Committee, there is an inconsistency in profitability of the Company. This is explained with the help of an example supplied by the querist as Annexure A for the perusal of the Committee. Further, if reduction in tax rate is assumed in subsequent years, then the opinion suggested by the Committee will further bring down the profitability of the Company and the deferred tax adjustment amount will not be fully recovered through tariff. This is explained with the help of example in the Annexure.

In 1st scenario where a consistent tax rate of 30% is assumed over a period of 5 years, the PAT earned by the Company is proportionate to the ROE allowed by the Regulator provided the Company follows the practice of showing deferred tax as deferred asset and adjust it from deferred tax liability. However, if the Company follows the practice of showing deferred tax as part of regulatory deferral account balance then the PAT does not match with the ROE earned by the Company. Though there is no change in ROE entitlement of the Company but only due to adoption of different approach, there is inconsistency in PAT and tax paid by the Company. Under old approach, there is similarity in the PAT and ROE as well as tax paid and claimed from the Regulator but if the Company changes its treatment as per revised approach, the revised PAT and ROE will not match; and there is difference in tax paid and claimed from the Regulator. The first approach is more logical since it truly depicts the profit earned by the Company which should match with the ROE allowed by Regulator. Also, tax paid exactly matches with tax allowed by the Regulator.

In 2nd scenario where tax rate is taken @ 30% for 3 years and @ 20% for balance 2 years, then as per revised approach the impact is even worse, i.e., the Company is not able to get the full amount of allowable ROE and tax as the PAT goes down to 719.34 as against the ROE of 720. However, as per old approach the PAT and ROE will be same. Further, there are issues like whether the change in disclosure of deferred tax will be treated as revision in accounting policy and has to be dealt with as per Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'. In some cases, prior period figures also need to be restated and explanation required as to the nature and justification of change and it may raise queries on the part of shareholders.

Hence, the Company believes that showing the recoverable amount as deferred asset against deferred tax liability is more appropriate as it clearly demonstrates the substance of the transaction. Any other treatment may not be suitable in the Company's case because it does not commensurate with the regulatory aspects and also alter the financial results due to change in income tax liability, profitability, recognition of regulatory asset etc.

B. Query

10. In view of the above, the querist has sought the opinion of the Expert Advisory Committee regarding the Company's practice of showing deferred asset against deferral tax liability as an adjustment item below deferred tax expense in the Statement of Profit and Loss or whether it should be treated as part of regulatory deferral account balance.

C. Points considered by the Committee

11. The Committee notes that the basic issue raised by the querist relates to presentation of regulatory deferral asset (RDA) created in respect of deferred tax liability in the Statement of Profit and Loss in compliance with the Indian Accounting Standards. 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, recognition of deferred tax liability, recognition and measurement of RDA, income-tax implications or consequences of the Opinion, application of the requirements of Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' (if any applicable in the extant case), etc. Further, this opinion is restricted to the financial reporting requirements under Ind AS and does not deal with the regulatory aspects of the DERC/CERC tariff regulation or any other related regulations or Electricity Act, 2003. The Committee also presumes that the 'deferred assets against deferral tax liability' has been

appropriately recognised as per the requirements of Ind AS 114/Guidance Note on Accounting for Rate Regulated Activities.

12. The Committee notes from the above that the DERC tariff norms provide for grossing up of the return on equity with the effective tax rate for the respective financial year based on the actual tax paid during the year and considering these norms, the Company has recognised an asset balance as ‘Deferred asset against deferred tax liability’.

13. With regard to the nature of the ‘deferred assets against deferral tax liability’, the Committee notes that Appendix A to Ind AS 114 defines ‘regulatory deferral account balance’ as a ‘Regulatory Asset’ or a ‘Regulatory Liability’ as defined in the Guidance Note on Accounting for Rate Regulated Activities. Paragraph 21 of the Guidance Note states that a Regulatory Asset is an entity’s right to recover fixed or determinable amounts of money towards incurred costs as a result of the actual or expected actions of its regulator under the applicable regulatory framework. Similarly, a regulatory liability is an entity’s obligation to refund or adjust fixed or determinable amounts of money as a result of actual or expected action of its regulator under the applicable regulatory framework.

The Committee further notes that paragraph 5 of Ind AS 12, ‘Income Taxes’ provides as follows:

“Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of:

- (a) deductible temporary differences;**
- (b) the carryforward of unused tax losses; and**
- (c) the carryforward of unused tax credits.**

Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either:

- (a) *taxable temporary differences, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or***
- (b) *deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.”***

14. The Committee notes that as per the DERC Regulations, the recoverable amount (against deferred tax) recognised in the extant case would reverse in future by way of recovery through future tariff and not through adjustment in future income tax liabilities of the Company as per Income-tax Act and is, therefore, not a deductible temporary difference resulting into deferred tax asset under Ind AS 12.

15. The Committee also notes that Ind AS 12 does not allow deferred tax liabilities to be offset with assets other than deferred tax assets. Since ‘Deferred asset against deferred tax liability’ is not a deferred tax asset under Ind AS 12; rather is a regulatory deferral account balance, the Committee is of the view that the same cannot be offset with deferred tax expense or liability in the financial statements. Such an offset is also inappropriate under Ind AS 1, ‘Presentation of Financial Statements’. In this context, the Committee notes that paragraphs 32 and 33 of Ind AS 1 state as follows:

“32 An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an Ind AS.

33 An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statement of profit and loss or balance sheet, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity’s future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.”

Thus, Ind AS 1 states that assets and liabilities should not be offset except when offsetting reflects the substance of the transaction or detracts from the ability of users to understand the transaction. Since in the extant case, although deferred regulatory asset against the deferred tax liability, relates to deferred tax liability, but these are governed under different regulatory frameworks and pertain to different parties, (viz. Power regulator and Income-tax authority); therefore, the Committee is of view that these should not be offset in the financial statements.

16. Further, with regard to presentation of ‘regulatory deferral balance’, the Committee notes that paragraphs 20, 22 and 23 of Ind AS 114, ‘Regulatory Deferral Accounts’ provide as follows:

“20 An entity shall present separate line items in the balance sheet for:

(a) the total of all regulatory deferral account debit balances; and

(b) the total of all regulatory deferral account credit balances.”

“22 An entity shall present, in the other comprehensive income section of the statement of profit and loss, the net movement in all regulatory deferral account balances for the reporting period that relate to items recognised in other comprehensive income. Separate line items shall be used for the net movement related to items that, in accordance with other Standards:

(a) will not be reclassified subsequently to profit or loss; and

(b) will be reclassified subsequently to profit or loss when specific conditions are met.

23 An entity shall present a separate line item in the profit or loss section of the statement of profit and loss, for the remaining net movement in all regulatory deferral account balances for the reporting period, excluding movements that are not reflected in profit or loss, such as amounts acquired. This separate line item shall be distinguished from the income and expenses that are presented in accordance with other Standards by the use of a sub-total, which is drawn before the net movement in regulatory deferral account balances.”

Accordingly, the Committee is of the view that the Company should follow the above-reproduced requirements of Ind AS 114 in respect of ‘regulatory deferral balance’ in its financial statements.

17. With regard to various contentions raised by the querist, the Committee wishes to mention as follows:

(i) With regard to querist’s contention that the Company’s right to recovery of deferred tax will materialise at a future date when the deferred tax will convert into actual tax and as on

date, it is premature to consider it as a part of regulatory asset and that as on date, it is a notional amount, the Committee does not agree with the same.

As explained by the querist, the Company is allowed a recovery based on effective tax rate which is purely based on actual (current) tax and not deferred tax. Since deferred tax liability will increase future allowable tariff due to temporary differences arising in the current period, it will give rise to recovery in future period through tariff and therefore, the deferred asset created against deferred tax liability fulfils the definition of regulatory assets.

As per the requirements of the Guidance Note, a regulatory asset should be recognised by the entity if the same is recoverable from the customers in future through tariffs.

Further, the Committee is of the view that any uncertainty with regard to recovery should be considered while recognising and measuring the deferred regulatory asset rather than in its presentation and with regard to certainty, it is stated in the facts itself that “it is certain that the actual tax amount will be recovered in future”. Furthermore, deferred tax liability recognised as per Ind AS 12 is an ‘incurred cost’, which does not necessarily always mean ‘paid cost’.

(ii) Further, the contention that deferred tax is recoverable in future in the form of higher effective tax rate which will be allowed by the DERC in future years and not in the form of additional claim of deferred tax through regulatory asset, the Committee wishes to point out that paragraph B10 of Ind AS 114 while recognising the creation of deferred regulatory asset where recovery is through higher tax rate, provides as follows:

“B10 In some rate-regulatory schemes, the rate regulator permits or requires an entity to increase its future rates in order to recover some or all of the entity’s income tax expense. In such circumstances, this might result in the entity recognising a regulatory deferral account balance in the balance sheet related to income tax, in accordance with its accounting policies established in accordance with paragraphs 11–12. The recognition of this regulatory deferral account balance that relates to income tax might itself create an additional temporary difference for which a further deferred tax amount would be recognised.”

Thus, the situation leading to immediate accrual of income due to recognition of regulatory asset, which will further attract income tax payable on such income (as contended by querist) is duly identified in paragraph B10 of Ind AS 114. The Committee also wishes to point out that in view of paragraph B10 of Ind AS 114, the Company should also examine as to whether or not the recognition of regulatory deferral account balance in the extant case is creating an additional temporary difference for which a further deferred tax amount needs to be recognised. Further, if a deferred tax asset/deferred tax liability (as the case may be) is created considering the requirements of B10, the same should also be presented as per the requirements of Ind AS 114.

(iii) As far as contention relating to incurrence of cost with regard to deferred tax is concerned, the Committee wishes to point out that incurrence of cost has no relation with actual tax payment. The concept of deferred tax is based on the concept of ‘accrual’, wherein the costs/expenses are recognised when incurred rather than on payment basis. Appropriate recognition of deferred tax expense/ income under Accounting Standards is indeed an example of cost/ income and cannot be treated as a notional cost/income.

(iv) With regard to querist’s contention that the prevailing tariff regulations don’t permit recovery of DRA as part of tariff, the Committee wishes to point out that a regulatory asset is an entity’s right to recover fixed or determinable amounts of money towards incurred costs as a result of the actual or *expected actions* of its Regulator under the applicable regulatory framework. Therefore, even though recovery is not permitted currently but the Company has

right to recover the cost as a result of expected actions of the Regulator and accordingly, creation of DRA is in accordance with the requirements of the Standard.

(v) As far as querist's contention relating to earlier opinion issued by the Committee in context of another company, the Committee wishes to mention that since the Company is engaged in distribution of electricity and not power generation or transmission, the Committee has not examined the querist's contentions in respect of recognition or presentation of deferred regulatory asset in the context of power generation or transmission entities. The Committee's opinions are based on the specific facts provided to it and may not necessarily apply in scenarios/situations with different facts.

(vi) The Committee also wishes to point out that any uncertainty with regard to allowance of regulatory asset by the Regulator or as per the extant tariff regulation should be factored into while creating/recognising or measuring the DRA rather than while presenting the same.

D. Opinion

18. On the basis of the above, the Committee is of the opinion that the nature of the 'deferred asset against deferred liability' is in the nature of regulatory deferral account balance under Ind AS 114 and not in the nature of deferred tax asset and thus presentation by the entity of deferred tax balance in Statement of Profit and Loss net of 'adjustable in future tariff' is not in compliance with the requirements of Ind AS 114, Ind AS 1 and Ind AS 12. The same should be presented in accordance with paragraphs 20, 22 and 23 of Ind AS 114, as discussed in paragraphs 13 to 16 above.

Annexure A

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Total | Year 1 | Year 2 | Year 3 |
|-----------------|--------|--------|--------|--------|--------|----------|--------|--------|--------|
| Net = (N) | 197.14 | 197.14 | 197.14 | 218.57 | 218.57 | 1,028.57 | 197.14 | 197.14 | 197.14 |
| Y = (Y) or Nil | (B) | | | | | | 5.00 | 6.00 | 6.00 |
| | 197.14 | 197.14 | 197.14 | 218.57 | 218.57 | 1,028.57 | 203.40 | 203.40 | 203.40 |
| | 53.14 | 53.14 | 53.14 | 74.57 | 74.57 | 308.57 | 55.02 | 55.02 | 55.02 |
| | 6.00 | 6.00 | 6.00 | -6.00 | -6.00 | | 6.00 | 6.00 | 6.00 |
| | -6.00 | -6.00 | -6.00 | 9.00 | 9.00 | | | | |
| | 144.00 | 144.00 | 144.00 | 144.00 | 144.00 | 720.00 | 144.00 | 144.00 | 144.00 |
| | 26.85% | 26.85% | 26.85% | 34.13% | 34.13% | 30.00% | 27.05% | 27.05% | 27.05% |
| 22 Block | (I) | 150 | 150 | 150 | 150 | 1,028.57 | 150 | 150 | 150 |
| WCV | (J) | 120 | 90 | 90 | 30 | 0 | 120 | 90 | 60 |
| 23/ | (K) | 100 | 50 | 0 | 0 | 0 | 100 | 50 | 0 |
| | (L) | 20 | 40 | 60 | 30 | 0 | 10 | 40 | 60 |
| | (M) | 5 | 12 | 18 | 9 | 0 | 6 | 12 | 18 |
| 51 @ 20% on FFE | (N) | 197.14 | 197.14 | 197.14 | 218.57 | 1,028.57 | 197.14 | 197.14 | 197.14 |
| 52 @ 33% on PPE | (O) | 30.00 | 30.00 | 30.00 | 30.00 | 150.00 | 30.00 | 30.00 | 30.00 |
| | (P) | 50.00 | 50.00 | 50.00 | 0.00 | 150.00 | 50.00 | 50.00 | 50.00 |
| | (Q) | 177.14 | 177.14 | 177.14 | 248.57 | 1,028.57 | 163.40 | 163.40 | 163.40 |
| | (R) | 30% | 30% | 30% | 30% | | 30% | 30% | 30% |
| | (S) | 53.14 | 53.14 | 53.14 | 74.57 | 308.57 | 55.02 | 55.02 | 55.02 |
| | (T) | 144.00 | 144.00 | 144.00 | 144.00 | 720.00 | 144.00 | 144.00 | 144.00 |
| | (U) | 53.14 | 53.14 | 53.14 | 74.57 | 308.57 | 53.40 | 53.40 | 53.40 |
| | (V) | 197.14 | 197.14 | 197.14 | 218.57 | 1,028.57 | 197.40 | 197.40 | 197.40 |

1st Scenario

2nd Scenario

Return on Equity earned by the company. Other Income is Nil.
 d) Tax recovery is Nil.
 Return on Equity is computed in following manner: The base rate of return on equity as specified by the Commission in the Business Plan Regulations shall be grossed out, the effective tax rate shall be considered on the basis of actual tax paid vis-à-vis total income of the Utility in the relevant financial year in line with the provisions of 41(a) as prescribed in DEPC regulations, 2017.
 Companies Act depreciation @ 20% and income tax depreciation @ 33.33%
 Return on Equity and received same for the next five years.

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Total | Year 1 | Year 2 | Ye |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|------|
| (V) | 197.14 | 197.14 | 197.14 | 197.50 | 197.50 | 956.43 | 157.40 | 197.40 | 197 |
| or Nil | - | - | - | - | - | - | 6.00 | 6.00 | 6 |
| (3) | 197.14 | 197.14 | 197.14 | 197.50 | 197.50 | 956.43 | 203.40 | 203.40 | 203 |
| (4) | 53.14 | 53.14 | 53.14 | 43.50 | 43.50 | 246.43 | 55.02 | 55.02 | 55 |
| (5) | 6.00 | 6.00 | 6.00 | -12.00 | -6.00 | - | 6.00 | 6.00 | 6 |
| (6) | -5.00 | -6.00 | -6.00 | 12.00 | 6.00 | - | - | - | - |
| (7) | 144.00 | 144.00 | 144.00 | 144.00 | 144.00 | 720.00 | 144.00 | 144.00 | 144 |
| (8) | 26.95% | 26.95% | 26.95% | 23.20% | 23.20% | 23.50% | 27.05% | 27.05% | 27.1 |
| (9) | 150 | 150 | 150 | 150 | 150 | 750 | 150 | 150 | 150 |
| (10) | 120 | 90 | 60 | 30 | 0 | 300 | 120 | 90 | 120 |
| (11) | 100 | 50 | 0 | 0 | 0 | 150 | 100 | 50 | 100 |
| (12) | 20 | 40 | 60 | 30 | 0 | 150 | 20 | 40 | 20 |
| (13) | 6 | 12 | 18 | 6 | 0 | 42 | 6 | 12 | 6 |
| (14) | 197.14 | 197.14 | 197.14 | 197.50 | 197.50 | 956.43 | 203.40 | 203.40 | 203 |
| (15) | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 | 150.00 | 30.00 | 30.00 | 30 |
| (16) | 50.00 | 50.00 | 50.00 | 0.00 | 0.00 | 150.00 | 50.00 | 50.00 | 50 |
| (17) | 177.14 | 177.14 | 177.14 | 217.50 | 217.50 | 956.43 | 183.40 | 183.40 | 183 |
| (18) | 30% | 30% | 30% | 20% | 20% | 20% | 30% | 30% | 30 |
| (19) | 53.14 | 53.14 | 53.14 | 43.50 | 43.50 | 246.43 | 55.02 | 55.02 | 55 |
| (20) | 144.00 | 144.00 | 144.00 | 144.00 | 144.00 | 720.00 | 144.00 | 144.00 | 144 |
| (21) | 53.14 | 53.14 | 53.14 | 43.50 | 43.50 | 246.43 | 53.14 | 53.14 | 53 |
| (22) | 197.14 | 197.14 | 197.14 | 197.50 | 197.50 | 956.43 | 157.40 | 197.40 | 197 |

20% interest
 DE earned by the company. Other income is Nil
 recovery is Nil

on Equity is computed in following manner: The base rate of return on equity as specified by the Commission in the Business Plan Regulations shall be grossed up
 The rate shall be considered on the basis of actual tax paid viz. the total income of the Utility in the relevant financial year in line with the provisions of the relevant Provisions
 as per Depreciation rate @ 20% and Income tax depreciation rate @ 33.33%
 considered Nil
 Equity and kept same for the next five years