

Query No. 21

Subject: Preparation of Statement of Profit and Loss in a non-revenue generating organisation.¹

A. Facts of the Case

1. A Corporation (hereinafter referred to as 'the Corporation'), a special purpose vehicle (SPV) was incorporated on 9th July, 2008 under the erstwhile Companies Act, 1956 for execution of 'East-West Metro Corridor Project' in one of the metro cities. The project runs through an East West alignment from one part of the city upto another part. The Project had been planned to be completed in phases and Phase IA of the project, for a particular stretch in elevated viaduct had been commissioned from 14.02.2020 and Phase IB had been commissioned from 05.10.2020. Partial commissioning of Phase-II was done on 14th July, 2022. The revenue services are undertaken by Metro Railway of the city, who will be in charge of operation and maintenance of the system. Hence, no revenue is earned by the Corporation.

2. The querist has stated that the Statement of Profit and Loss used to be prepared since the inception of the enterprise, which mainly constituted of expenses, such as, employee benefit expenses, depreciation & amortisation expenses and other administrative expenses (all kinds of audit fees, repair & maintenance, printing & stationery, foreign exchange fluctuation cost, etc.). All other expenses related to the project are being capitalised. As the enterprise does not generate any revenue, this resulted in portraying the enterprise as a loss making one, which is not the case. As per the financial performance of Railway Commercial Undertakings, the Corporation is a loss-making organisation. Therefore, as per the querist, for the Corporation, not being a revenue generating one, the question of making either profit or loss does not arise. Hence, after consultation with the statutory auditor of the Corporation for the financial year (F.Y.) 2020-21, it was decided to do away with the Statement of Profit and Loss.

3. The querist has further stated that the Comptroller and Auditor General of India (C&AG) under section 143(6)(b) of the Companies Act, 2013 commented on the accounts of the Corporation for F.Y. 2020-21, that unless expenses are directly attributable to the construction of the project, those should be expensed in the Statement of Profit and Loss, as per an earlier opinion of the Expert Advisory Committee of the Institute of Chartered Accountants of India (ICAI) (Query No. 5 of Volume XXXV of the Compendium of Opinions). Examples of such expenses being legal expenses, auditor's fees, directors' sitting fees, etc.

4. The Corporation is an SPV and has a single project (i.e. East-West Metro Corridor Project). Hence, according to the querist, all the expenses are directly related to this single project. Whatever, legal fees are expended are directly related to arbitration cases in course of execution of this project. Auditors' fees are being paid for audit of this single project and so are the directors' sitting fees.

5. A letter dated 15.06.2018 from the Ministry of Railways (Railway Board), Government of India, had instructed that interest earned on the funds released by MoR/GoM/Zonal Railways lying surplus, till their actual utilisation shall not be treated as

¹ Opinion finalised by the Committee on 13.12.2022.

surpluses/profits of the Company. Interest amount on funds shall be credited to the projects for which these funds have been released.

6. Another letter dated 04.01.2018 from the Ministry of Railways (Railway Board), Government of India states that as per the Cabinet's approval, after the completion of execution of the project, Metro Railway would run the East West Metro Corridor alongwith North South Corridor under a unified control. The operations will be as per the legal provisions applicable for Metro Railway.

B. Query

7. Based on the above, opinion of the Expert Advisory Committee has been sought as to whether preparation of the Statement of Profit and Loss is required in the current scenario or can be done away with.

C. Points considered by the Committee

8. The Committee notes that the basic issue raised by the querist relates to the requirement of preparation of the Statement of Profit and Loss in the facts and circumstances of the extant Corporation. The Committee has, therefore, examined only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, accounting for the construction activity during various stages/phases of metro corridor including accounting treatment of various expenses being incurred in relation to project by the Corporation, such as, employee benefit expenses, depreciation & amortisation expenses, administrative expenses, legal fees/expense, auditor's fees, director's sitting fees, etc., accounting for interest earned on the funds released by MoR/GoM/Zonal Railways lying surplus, impairment assessment under Ind AS 36, 'Impairment of Assets', etc. Further, the opinion, expressed hereinafter is purely from the perspective of Indian Accounting Standards (Ind AS) notified under the Companies (Indian Accounting Standards) Rules, 2015, as revised or amended from time to time and not from the perspective of any legal interpretation, such as, interpretation of various communications between the Corporation and the Ministry of Railways, etc.

At the outset, the Committee wishes to point out that various expenses are incurred during construction period. However, it is not necessary that all expenses incurred during construction are eligible to be capitalised to the project/asset being constructed. Similarly, just because the only activity undertaken by the Corporation at present is the construction activity, does not mean that every expense incurred by the Corporation is directly related or attributable to the construction activities. The capitalisation of an item of cost to a fixed asset/project depends upon the nature of such expenses in relation to the construction/acquisition activity in the context of requirements in this regard, laid down in the applicable Indian Accounting Standards (Ind ASs), such as Ind AS 16, 'Property, Plant and Equipment'.

9. With regard to the preparation of the financial statements, the Committee notes the following requirements of the Companies Act, 2013:

“Financial statement

129. ...

(2) At every annual general meeting of a company, the Board of Directors of the company shall lay before such meeting financial statements for the financial year.”

- “2. In this Act, unless the context otherwise requires, —
- (40) “financial statement” in relation to a company, includes—
- (i) a balance sheet as at the end of the financial year;
 - (ii) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
 - (iii) cash flow statement for the financial year;
 - (iv) a statement of changes in equity, if applicable; and
 - (v) any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv): ...”

The Committee further notes paragraph 10 of Ind AS 1, ‘Presentation of Financial Statements’ as follows:

“Complete set of financial statements

10 A complete set of financial statements comprises:

- (a) a balance sheet as at the end of the period;**
 - (b) a statement of profit and loss for the period;**
 - (c) Statement of changes in equity for the period;**
- ...”

From the above, the Committee notes that the Companies Act, 2013 specifically requires that the Board of Directors of a company shall lay at every annual general meeting, financial statements for the financial year. The Committee further notes that the financial statements as defined in the Companies Act, 2013 and the ‘complete set of financial statements’ as explained in Ind AS 1, essentially includes statement of profit and loss for the period. The Committee also notes that no exemption or relaxation has been given to any entity in respect of preparation of the Statement of Profit and Loss on any account.

The Committee further notes from the Facts of the Case that the Statement of Profit and Loss used to be prepared by the Corporation since its inception, which mainly constituted of expenses, such as, employee benefit expenses, depreciation & amortisation expenses and other administrative expenses (all kinds of audit fees, repair & maintenance, printing & stationery, foreign exchange fluctuation cost, etc.). However, as the enterprise does not generate any revenue, this resulted in portraying the enterprise as a loss making one, which, as per the querist, was not the case. Hence, the Corporation decided to do away with the preparation of the Statement of Profit and Loss.

From the above, the Committee is of the view that since there is no specific exemption or relaxation for preparation of the Statement of Profit and Loss on the ground that the entity is not a revenue generating entity or is a loss-making entity, non-preparation of Statement of Profit and Loss is not appropriate. Merely because there were only expense items being recognised in the Statement of Profit and Loss and thereby portraying the picture of Corporation being the loss-making organisation cannot be the basis of not preparing the Statement of Profit and Loss. Thus, the contention raised by the querist that as the enterprise is not a revenue generating one, the question of making either profit or loss does not arise, is not tenable. Moreover, the Statement of Profit and Loss captures not only revenue but also the expenses. Accordingly, the Committee is of the view that the Corporation is required to prepare Statement of Profit and Loss every financial year irrespective of whether it is earning

profits or losses and that there is no revenue or income being recognised in the Statement of Profit and Loss.

D. Opinion

10. In view of the above, the Committee is of the opinion on issue raised in paragraph 7 above that the Corporation is required to prepare the Statement of Profit and Loss, as discussed in paragraph 9 above.
