

Query No. 7

Subject: Accounting treatment of the transactions related to billing, collection and disbursement (BCD) in the capacity as Central Transmission Utility (CTU).¹

A. Facts of the Case

1. A Corporation (hereinafter referred to as 'P Ltd.') was incorporated on 23rd October, 1989 for the development, establishment and maintenance of transmission lines, by pooling all the transmission lines and sub-stations, being handled by a number of central organisations, under the umbrella of a single transmission organisation. Its main objective was to establish and operate regional and national power grids to facilitate transfer of power within and across the regions with reliability, security and economy, on sound commercial principles. It was also designated as Central Transmission Utility (CTU) in 1998 under the Electricity Supply Act to discharge the functions both as a transmission licensee as well as CTU. As per Central Electricity Regulatory Commission (CERC) (Sharing of Inter-State Transmission Charges and Losses) Regulations, 2010, besides other functions of CTU, the responsibility of the billing, collection and disbursement of transmission charges on behalf of all Inter-State Transmission System (ISTS) licensees was given to P Ltd. being a CTU.

2. The Ministry of Power, Government of India (GOI) vide Gazette Notification dated 09.03.2021 has notified a newly formed Government Company (hereinafter referred to as 'the Company'), which was incorporated on 28th December, 2020 as Central Transmission Utility (CTU). After forming the new company, P Ltd. shall continue to be deemed licensee under the Electricity Act, 2003. The Company has started its functioning w.e.f. 01.04.2021 as a wholly owned subsidiary of P Ltd. to undertake and discharge all the functions of CTU under the Electricity Act, 2003 and regulations/directions by Central Commission/Authority/Central Government. The main functions of the Company are enumerated below:

- (i) Undertake transmission of electricity through Inter-State Transmission System (ISTS).
- (ii) Planning, coordination and development of Inter-State Transmission System (ISTS) in coordination with various stakeholders.
- (iii) Billing, collection and disbursement of Inter-State Transmission System (ISTS) charges as per clauses 15 to 22 of the CERC Sharing Regulations, 2020.
- (iv) Nodal agency for providing Open Access related activities, Medium Term Open Access (MTOA), Long Term Access (LTA) as per CERC (Grant of Connectivity, Long-term Access and Medium-term Open Access in Inter-State Transmission and related matters) Regulations, 2009 and amendments thereof.
- (v) Nodal agency for planning and coordination for development of communication system for ISTS users as well as supervision of communication system in respect of ISTS.
- (vi) Installation of Interface meters at the points of interconnection with ISTS.

3. The querist has stated that ISTS Transmission Licensee means a person who holds an inter-state Transmission License. As per CERC Sharing Regulations, 2020, 'Designated ISTS Customer (DIC)' means the user of any transmission element(s) of the Inter-State Transmission System (ISTS) and shall include generating station, State Transmission Utility (STU), distribution licensee including State Electricity Board or its successor company,

¹ Opinion finalised by the Committee on 11.4.2022.

Electricity Department of State and any other entity directly connected to the ISTS and shall include an intra-State entity or a trading licensee that has obtained Medium Term Open Access or Long Term Access to ISTS.

From the accounting perspective

4. The querist has further stated that as one of the main functions of the CTU is billing, collection and disbursement of ISTS charges, as prescribed in CERC Sharing Regulations, 2020, the Company is mandated to raise bills on behalf of Inter-State Transmission System (ISTS) Licensees for ISTS (Inter-State Transmission System) charges to the Designated Inter-State Customers (DICs) [based on tariff orders issued by CERC on assets owned and operated by respective ISTS Licensees], collect the transmission charges from DICs and disburse the same to the ISTS Licensees as prescribed in CERC Sharing Regulations, 2020. As CERC Sharing Regulations, 2020 permits billing, collection and disbursement of ISTS charges, no separate agency agreement is required for the above said function.

5. The querist has also stated that presently, there are around 70 ISTS Licensees and DICs. The Company raises the bills for transmission charges on behalf of the ISTS Licensees by way of raising invoice to various DICs clearly mentioning that the Company is raising bill for transmission charges on behalf of ISTS Licensees. During the period of six months ended 30.09.2021, the Company has raised bills amounting to Rs. 23,000 crores approximately for ISTS transmission charges to the various DICs and collected the same from the DICs. The amounts collected from the DICs are disbursed to the Licensees without any mark up.

6. Presently, on the income side of Statement of Profit and Loss of the Company, the revenue from operations consists of income from application fee on connectivity or Long Term Open Access (LTOA)/Medium Term Open Access (MTOA). However, the billing made by CTU on behalf of ISTS Licensees is shown in the inner column of Statement of Profit and Loss under the head Revenue from operations and the same amount is reduced as payable on the bills raised by ISTS Licensees on the Company. However, it has no financial impact on the profit or loss of the Company. On the expenditure side, it has other operation and maintenance expenses which consist of manpower cost, legal expenses etc. It is pertinent to mention that the Company has no other income other than application fee mentioned above as on date and revenue stream of the Company in the form of reimbursement of other operation and maintenance expenses is yet to be notified by the Central Electricity Regulatory Commission (CERC). Due to non-receipt of CERC order for reimbursement of O&M expenses, the Company has incurred the loss.

7. During the half year ended 30.09.2021, the Company had receipts of Rs. 2.06 crore on account of application fee and incurred other operation and maintenance expenses of Rs. 15.21 crore resulting in a net loss of Rs. 13.15 crore. According to the querist, the bills for transmission charges, whenever raised to the DICs, become recoverable from DICs and payable to ISTS Licensees simultaneously. The balances of 'Recoverable from DICs' and 'Payable to Licensees' are adjusted as and when the payment is received from DICs and disbursed to ISTS Licensees respectively.

From Taxation perspective

8. Deduction of TDS against Transmission Charges:

As per the querist, there is no specific TDS provision in the Income-tax Act for deduction of TDS from transmission charges of electricity. However, there are some DICs by whom TDS

is being deducted under sections 194C, 194J, 194I etc. of the Income-tax Act, 1961. When payment is received (net of TDS) from DICs, the same is being disbursed to the ISTS Licensees. The amount of TDS deducted by the DICs is kept as TDS withheld as the same is not received by the Company. Once the refund is received from Income Tax Department, the same will be disbursed to the ISTS Licensees as per their share. Further, as the payments on which tax is deducted at source by the DICs is not the income of the Company, the Company by applying rule 37BA (2) (read with section 199) of the Income-tax Rules furnishes the details of ISTS Licensees to the DICs enabling them to deduct TDS Licensee-wise. Therefore, no TDS is being deducted by the Company while disbursing the amount to ISTS Licensees. However, while paying the amount to the Company against billing of transmission charges, some of the DICs are deducting TDS in the name of Licensees by applying rule 37BA (2) while others are deducting TDS in the name of the Company.

9. **GST Return:**

As all bills of transmission charges of electricity are being raised by the Company on behalf of ISTS Licensees as per functions entrusted by the CERC, the same are shown as exempted outward supply under GST Returns (as the same are exempted vide Notification No. 12/2017 dated 28/06/2017) and corresponding disbursement to ISTS Licensees are shown as exempted inward supply.

B. Query

10. In view of the above, opinion of the Expert Advisory Committee is solicited as to whether the accounting treatment/presentation made by the Company for the transactions related to billing, collection and disbursement (BCD) in the capacity as CTU in the Statement of Profit and Loss and Balance Sheet is appropriate. If not appropriate, what should be the accounting treatment/ presentation of BCD function in the financial statements of the Company?

C. Points considered by the Committee

11. The Committee notes that the basic issues raised by the querist relate to the accounting treatment/presentation for the transactions related to billing, collection and disbursement (BCD) by the Company in the capacity as CTU in its financial statements. 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, appropriateness of timing of recognition of 'Recoverable from DICs' and 'Payable to ISTS Licensees', recognition of income from application fee on connectivity or LTOA/MTOA under Ind AS 115, recognition of expenses, etc. The Committee notes from the extract of annual report of the Company for the financial year 2020-21, provided by the querist that the Company follows Indian Accounting Standards (Ind AS) in its financial statements and has therefore examined the issue from Ind AS perspective. Further, the opinion expressed hereinafter is purely from accounting perspective and the Committee has not examined any regulatory or legal aspects including under Income-tax Act, 1961 or Goods and Service Tax Act or legal interpretation of Electricity Act or various regulations or guidelines issued by the CERC, etc.

12. In the context of issue raised, the Committee notes the following requirements of Ind AS 115, 'Revenue from Contracts with Customers':

“9 An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

- (a) **the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;**
- (b) **the entity can identify each party's rights regarding the goods or services to be transferred;**
- (c) **the entity can identify the payment terms for the goods or services to be transferred;**
- (d) **the contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and**
- (e) **it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession (see paragraph 52).**

- 10 A contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a contract is a matter of law. Contracts can be written, oral or implied by an entity's customary business practices. The practices and processes for establishing contracts with customers vary across legal jurisdictions, industries and entities. In addition, they may vary within an entity (for example, they may depend on the class of customer or the nature of the promised goods or services). An entity shall consider those practices and processes in determining whether and when an agreement with a customer creates enforceable rights and obligations."

The Committee notes from the above that one of the requirements for applicability of Ind AS 115 is that there should be a contract, written, oral or implied by the entity's customary business practices, between the parties. The Committee is therefore of the view that it needs to be first determined whether there is a contract as aforesaid between the Company and ISTS Licensees/DICs. The Committee notes from the facts of the case that while there is no separate written agreement between the Company and the ISTS Licensees/DICs, by operation of law and past practices it may be concluded that there appears to be an implied contract between the said parties. Even if it were to be concluded that there is no contract between the said entities within the meaning of Ind AS 115, the Committee is of the view that since no other Standard apart from Ind AS 115 specifically deals with the principles of principal versus agent considerations in the context of revenue recognition, considering the requirements of paragraphs 10 and 11 of Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', the requirements of Ind AS 115 in this regard should still be applied in the extant case. Accordingly, the Committee notes the following requirements of Ind AS 115:

- "B34 When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (ie the entity is a

principal) or to arrange for those goods or services to be provided by the other party (ie the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer (see paragraphs 27–30). If a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

B34A To determine the nature of its promise (as described in paragraph B34), the entity shall:

- (a) identify the specified goods or services to be provided to the customer (which, for example, could be a right to a good or service to be provided by another party (see paragraph 26)); and
- (b) assess whether it controls (as described in paragraph 33) each specified good or service before that good or service is transferred to the customer.

B35 An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. However, an entity does not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a customer. An entity that is a principal may satisfy its performance obligation to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of the performance obligation on its behalf.

B35A When another party is involved in providing goods or services to a customer, an entity that is a principal obtains control of any one of the following:

- (a) a good or another asset from the other party that it then transfers to the customer.
- (b) a right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf.
- (c) a good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer. For example, if an entity provides a significant service of integrating goods or services (see paragraph 29(a)) provided by another party into the specified good or service for which the customer has contracted, the entity controls the specified good or service before that good or service is transferred to the customer. This is because the entity first obtains control of the inputs to the specified good or service (which includes goods or services from other parties) and directs their use to create the combined output that is the specified good or service.

B35B When (or as) an entity that is a principal satisfies a performance obligation, the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

B36 An entity is an agent if the entity's performance obligation is to arrange for the provision of the specified good or service by another party. An entity that is an

agent does not control the specified good or service provided by another party before that good or service is transferred to the customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

B37 Indicators that an entity controls the specified good or service before it is transferred to the customer (and is therefore a principal (see paragraph B35)) include, but are not limited to, the following:

- (a) the entity is primarily responsible for fulfilling the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specifications). If the entity is primarily responsible for fulfilling the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.
- (b) the entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example, if the customer has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a contract with a customer, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the good or service before it is transferred to the customer.
- (c) the entity has discretion in establishing the price for the specified good or service. Establishing the price that the customer pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining benefits. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to customers.

B37A The indicators in paragraph B37 may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the contract. In addition, different indicators may provide more persuasive evidence in different contracts.

B38 If another entity assumes the entity's performance obligations and contractual rights in the contract so that the entity is no longer obliged to satisfy the performance obligation to transfer the specified good or service to the customer (ie the entity is no longer acting as the principal), the entity shall not recognise revenue for that performance obligation. Instead, the entity shall evaluate whether to recognise revenue for satisfying a performance obligation to obtain a contract for the other party (ie whether the entity is acting as an agent)."

13. The Committee notes the following salient features of the Company's incorporation and operations:

- Ministry of Power has notified the Company as Central Transmission Utility (CTU) as a wholly owned subsidiary of P Ltd. to undertake and discharge all the functions of CTU under the Electricity Act, 2003 and regulations/directions by Central Commission/Authority/Central Government. The main functions of the Company include: Undertake Transmission of electricity through Inter-State Transmission System (ISTS); Planning, Coordination & Development of Inter-State Transmission System (ISTS) in coordination with various stakeholders; Billing, Collection and Disbursement of Inter-State Transmission System (ISTS) charges as per clauses 15 to 22 of CERC Sharing Regulations, 2020; nodal agency for planning and coordination for development of communication system for ISTS user as well as supervision of communication system in respect of ISTS and Installation of Interface meters at the points of interconnection with ISTS.
- Based on the sample invoice shared by the querist, the invoice raised by the Company is towards Billing, Collection and Distribution of Inter State Transmission System Charges.
- The transmission charges are determined as per the CERC Tariff Regulations and CERC Sharing Regulations and, as such, the Company does not have any pricing discretion; rather appears to be responsible only for billing and collection.
- One of the main functions of the Company is Billing, Collection and Disbursement of ISTS charges, as prescribed in CERC Sharing Regulations, 2020; as per clauses 15 to 22 of the CERC Sharing Regulations, 2020, the Company is mandated to raise bills on behalf of Inter-State Transmission System (ISTS) Licensees for ISTS (Inter-State Transmission System) charges to the Designated Inter-State Customers (DICs), Collect the transmission charges from DICs and disburse the same to the ISTS Licensees. Further, as CERC Sharing Regulations, 2020 permit billing, collection and disbursement of ISTS charges, no separate agency agreement is required for the above said function.
- As per Regulation 21 of CERC Sharing Regulations, 2020, "Failure on the part of a DIC to make payment, in full, against the bills by the due date under these regulations shall make such DIC liable for action for any or combination of the following, by the Central Transmission Utility, *on behalf of* inter-state transmission licensee(s). ...".
- Section 38 of Electricity Act, 2003 prohibits the CTU from engaging in the business of generation of electricity or trading in electricity. Further, the Central Government may transfer, and vest any property, interest in property, rights and liabilities connected with, and personnel involved in transmission of electricity of such Central Transmission Utility, to a company or companies to be incorporated under the Companies Act, 1956 to function as a transmission licensee. The functions of the CTU shall include, to undertake transmission of electricity through inter-state transmission system and to discharge all functions of planning and co-ordination relating to inter-state transmission system.
- The Company raises the bills for transmission charges on behalf of the ISTS Licensees by way of raising invoice to various DICs clearly mentioning that the Company is raising bill for transmission charges on behalf of ISTS Licensees. During the period of

six months ended 30.09.2021, the Company has raised bills amounting to Rs. 23,000 crores approximately for ISTS transmission charges to the various DICs and collected the same from the DICs. The amounts collected from the DICs are disbursed to the Licensees currently without any mark up.

The Committee further notes that under Ind AS 115, an entity is a principal (and, therefore, records revenue on a gross basis), if it controls a promised good or service before transferring that good or service to the customer. Conversely, an entity is an agent (and, therefore, records as revenue the net amount that it retains for its services), if its role is to arrange for another entity to provide the goods or services. In order for an entity to conclude that it is providing the good or service to the customer, it must first control that good or service. The entity cannot provide goods or services to a customer if the entity does not first control it.

In the extant case, the billing involved is for the use of Inter State Power Transmission Services. The Company is central agency incorporated under Electricity Act. It is currently raising invoices to the DICs on behalf of the ISTS Licensees, collecting the moneys and disbursing the same to ISTS Licensees. CERC Sharing Regulations, 2020 permit the Company to bill, collect and disburse ISTS charges and as per the querist, no separate agency agreement is required for the above said function.

Further, after examining the facts from the perspective of paragraph B35A of Ind AS 115, the Committee notes:

- The condition described in paragraph B35A(a) of Ind AS 115 includes contracts in which an entity transfers to the customer a right to a future service to be provided by another party. If the specified good or service is a right to a good or service to be provided by another party, the entity evaluates whether it controls the right to the goods or services before that right is transferred to the customer. In the extant case, the Company does not transfer the right of power transmission services to the customers, but it is the ISTS Licensees that are transferring the same.
- Under condition paragraph B35A(b) of Ind AS 115, entity that is principal obtains control of a right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf. This is not applicable in the extant case, since the Company does not have a right to direct the ISTS Licensees to provide service to the customers.
- In accordance with paragraph B35A(c) of Ind AS 115, if an entity provides a significant service of integrating two or more goods or services into a combined item that is the specified good or service the customer contracted to receive; the entity controls that specified good or service before it is transferred to the customer. However, from the facts provided, the Company does not appear to provide any service of integration.

Furthermore, after examining the facts from the perspective of the indicators under paragraph B37 of Ind AS 115, the Committee notes:

- The first indicator that an entity is a principal, a per paragraph B37(a), is that the entity is primarily responsible for both fulfilling the promise to provide the specified good or service to the customer and for the acceptability of the specified good or service. In the extant case, the Company is not responsible for providing the power transmission or its acceptability to the customers.

- The second indicator that an entity is a principal, in paragraph B37(b), is that the entity has inventory risk (before the specified good or service is transferred to the customer or upon customer return). In the extant case, there is no inventory risk that is borne by the Company since, in the context of the Company's activities of power transmission, power as a commodity cannot be inventorised/stored. Further, the Company has not undertaken any obligation to supply power or to purchase power from any counterparty.
- The third principal indicator, as per paragraph B37(c), is that the entity has discretion in establishing the price for the specified good or service. In the extant case, the Company does not have pricing latitude as transmission charges are determined as per the CERC Tariff Regulations and CERC Sharing Regulations. The Company also does not play any role in establishing the price of the specified power supply.

Based on the above, the Committee is of the view that as per the requirements of Ind AS 115, the Company is not controlling the goods or services before the same are transferred to the customers, but rather it is rendering billing, collection and disbursement services as per the Electricity Act. Therefore, the Company is only acting as an agent and the amount billed to the customers should not be presented as revenue of the Company. The Company should not even present the amount billed on behalf of the ISTS Licensees as revenue in the inner column in the Statement of Profit and Loss. Similarly, the amount disbursed to the ISTS Licensees should not be presented as purchases/ cost of goods sold in the inner column in the Statement of Profit and Loss.

14. Further, since the Company is only acting as an agent and not as principal in respect of billing, collection and disbursement services, as discussed above and since at present, no agency fee or commission is being charged from ISTS Licensees/DICs, the Committee is of the view that the Company should not recognise the related asset and liability, viz., recoverable from DICs and payable to ISTS Licensees on account of billing, collection and disbursement services on behalf of ISTS Licensees in its financial statements; *rather the same may be appropriately presented and disclosed by way of notes to accounts.*

15. The Committee also notes that Ind AS 1, 'Presentation of Financial Statements' states the following

“122 An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.”

From the above, the Committee is of the view that in the financial statements of the Company, under the significant accounting policies or other notes, the Company should give appropriate disclosures of the judgement made by the management with regard to its billing, collection and disbursement services or the arrangement with the ISTS Licensees and DICs as per the above-mentioned requirements of Ind AS 1.

D. Opinion

16. On the basis of the above, for the reasons mentioned in paragraph 13 above, the Committee is of the opinion that the amount billed to the DICs should not be presented as revenue of the Company. Further, since the Company is merely acting as an agent, it should not recognise the related asset and liability, viz., recoverable from DICs and payable to ISTS

Licensees on account of billing, collection and disbursement services on behalf of ISTS Licensees in its financial statements. The Company should also follow the presentation and disclosure requirements with regard to its billing, collection and disbursement services or the arrangement with the ISTS Licensees and DICs as per the requirements mentioned in paragraphs 14 and 15 above.
