

Query No. 1

Subject: Accounting for subsidy receivable under Ind AS framework.¹

A. Facts of the Case

1. A Company (hereinafter referred to as ‘the Company’) is registered under the Companies Act, 1956/2013. The Company is a state government company as the entire equity is held by the State Government. The bonds of the Company are publicly traded on Bombay Stock Exchange (BSE). The Company is having the following 5 subsidiaries, distribution companies (hereinafter collectively referred to as the DISCOMs):

1. Pu Vidyut Vitran Nigam Limited (PuVVNL)
2. M Vidyut Vitran Nigam Limited (MVVNL)
3. D Vidyut Vitran Nigam Limited (DVVNL)
4. P Vidyut Vitran Nigam Limited (PVVNL)
5. K Electricity Supply Company Limited (KESCO)

The DISCOMs are also registered under the Companies Act, 1956/2013.

2. The Company is primarily engaged in bulk purchase of power from inter-state and intra-state generators and in bulk sale/supply of power to the DISCOMs. Bulk sale tariff for sale of power to DISCOMs is decided by the Company. The DISCOMs are engaged in distribution and supply of electricity to consumers in their specified areas. Tariff for distribution/supply (including subsidy chargeable/receivable against subsidised consumers) is regulated/approved by the State Electricity Regulation Commission (SERC).

3. The Company has been receiving grants/subsidies from the State/Central Government on behalf of the DISCOMs under various schemes, such as, Ujjwal DISCOM Assurance Yojana (hereinafter referred to as UDAY), ATMNIRBHAR Scheme, Revamped Distribution Sector Scheme (RDSS) etc. and subsequently allocates/transfers it to the respective DISCOMs.

4. The UDAY scheme was a financial restructuring programme launched by the Government of India in November 2015. The scheme primarily aimed to address the financial health and operational efficiency of DISCOMs in India. The scheme’s basic objectives were mainly to reduce the debt burden, to improve operational efficiencies and to promote sustainable energy practices of the DISCOMs. Under this scheme, the State Government took over 75% of the outstanding debt on the books of the DISCOMs as on September 30, 2015. The balance debt i.e. remaining 25% was issued as state government-guaranteed DISCOM bonds. This helped in reducing the interest burden and overall debt of the DISCOMs. State Government had sanctioned and released subsidy of Rs. 29350.32 crores under the UDAY (being 75% of the total outstanding debt of the DISCOMs amounting to Rs 39,133.76 crores as on 30-09-2015).

5. Additional revenue subsidy amounting to Rs. 39,743.00 crores, which was determined by the SERC (in trueing up of the Tariff for the DISCOMs for the period from financial year (F.Y.) 2007-08 to F.Y. 2019-20), was payable by the State Government to DISCOMs through the Company. But, no accounting has been done on this account in the books of the account of the Company and DISCOMs as there was no reasonable assurance from the State Government

¹ Opinion finalised by the Committee on 8.4.2024.

in this regard. Later on in the year 2020-21, the State Government, vide its Notification No. 445/24-01-21-731(budget) /2020 dated 05-03-2021, had adjusted the aforesaid revenue subsidy of Rs. 29,350.32 crores, which was received under UDAY, in the following manner and heads/item:

S. No.	Particulars	Amount (Rs. in Crores)
1.	Electricity dues from State Government's departments	4,268.86
2.	Against additional revenue subsidy of Rs. 39,743.00 crores trued up Tariff for the year 2007-08 to 2019-20	25,081.46
	Total	29,350.32

After adjustment of above additional tariff subsidy of Rs. 25,081.46 crores, the additional tariff of subsidy of Rs 14,661.54 crores (Rs. 39,743.00 crores - Rs. 25,081.46 crores) remained unadjusted. Apart from this, the balance amount of Rs. 6,278.47 crores were also payable by the State Government under UDAY for the period from F.Y. 2016-17 to 2019-20. Thus, the total subsidy of Rs. 20,940.00 crores (Rs. 14,661.54 crores + Rs. 6,278.47 crores) was to be received from the State Government for which the State Government had ordered in the aforesaid Notification dated 05-03-2021 that Rs. 20,940.00 crores shall be paid to the Company/DISCOMs in the next 10 (Ten) years through budget, which will be utilised/adjusted by the Company to repay the loan (including interest) taken from financial institutions, R Corporation and P Corporation under Aatmnirbhar Yojna. The loan of Rs. 20,940.00 crores was taken from financial institutions against the above admissible/receivable subsidy of Rs. 20,940.00 crores from the State Government.

6. Since the aforesaid subsidy of Rs. 20,940.00 crores was to be allocated by the Company amongst the DISCOMs, the Company, vide its circular no. 1526 dated 26-10-2021 had allocated the same after making necessary adjustments as tabulated below:

S.N.	Name of DISCOM	Tariff subsidy	UDAY Subsidy	Total Amount (Rs. in Crores)
1	PuVVNL	6,401.50	1,714.04	8,115.54
2	MVVNL	-	978.08	978.08
3	DVVNL	-	2,159.69	2,159.69
4	PVVNL	8,260.03	886.42	9,146.45
5	KESCO	-	540.24	540.24
		14,661.53	6,278.47	20,940.00

7. The State Government vide its following orders, has sanctioned/released the subsidy against total receivable subsidy of Rs. 20,940/- crores as detailed below:

S.N.	State government order no.	Sanctioned/ Released amount	Year
1	90/2021/1040/24-1-2021-830 Budget @2021 dated. 05.08.2021	Rs. 2000 crores	2021-22
2	111/2022/001-914-24-1-2022-830 Budget-2021 dated. 20.07.2022	Rs. 2000 crores	2022-23
3	46/2023/001-972-24-1-2023-830 Budget-2021 dated. 15.04.2023	Rs. 2000 crores	2023-24

8. In the context of the accounting for subsidy of Rs. 20940.00 crores, the following relevant points/facts are clear in the aforesaid Notification dated 05-03-2021 of the State Government:

- (i) There is a reasonable assurance that Rs. 20,940.00 crores shall be received from the State Government in the next 10 years from the F.Y. 2021-22.
- (ii) The Company shall comply with the conditions after receipts of fund/amount from the State Government.

9. In the above context, the following provisions of Ind AS 20, ‘Accounting for Government Grants and Disclosure of Government Assistance’ are also relevant, which can be referred:

As per Ind AS 20, **“Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity....”**

“6 Government grants are sometimes called by other names such as subsidies, subventions, or premiums.”

“20 A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable.”

“22 A government grant may become receivable by an entity as compensation for expenses or losses incurred in a previous period. Such a grant is recognised in profit or loss of the period in which it becomes receivable, with disclosure to ensure that its effect is clearly understood.”

“8 A government grant is not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received....”

9 The manner in which a grant is received does not affect the accounting method to be adopted in regard to the grant. Thus a grant is accounted for in the same manner whether it is received in cash or as a reduction of a liability to the government.”

10. *Accounting Treatment given in books*

(A) For subsidy of Rs. 14,661.53 crores

Keeping in view the aforesaid provisions of Ind AS 20 and the fact that the additional tariff subsidy of Rs. 14661.54 crores relate to earlier period i.e. 2007-08 to 2019-20, the DISCOMs (PVVNL and PuVVNL) had made the accounting entries in their books of account for the year 2020-21 as tabulated below:

S.N.	Name of DISCOMs	Amount of tariff subsidy (Rs. in Crores)	Debit head of Account	Credit head of Account
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1	PVVNL	8,260.03	Receivable from the State Government	General Reserve (under other equity)
2	PuVVNL	6,401.50	Receivable from the State Government	Retained Earnings (Accumulated Deficit) (under other equity)

From the year 2021-22 and onwards, the General Reserve Account is being amortised on the basis of actual year-wise receipt of subsidy from the State Government, by debiting to General Reserve Account/Retained Earning Account/Accumulated Deficit and crediting to Other Income under the Profit and Loss Account.

(B) For subsidy of Rs. 6278.47 crores

The accounting treatment given by the DISCOMs in the year 2020-21 in respect of subsidy of Rs. 6,278.47 crores under UDAY scheme is as follows:

S.N.	Name of DISCOMs	Amount of UDAY Subsidy (Rs.in Crores)	Debit head of Account	Credit head of Account
1	PuVVNL	1,714.04	Receivable from State Government	Retained Earning
2	MVVNL	978.08	Receivable from State Government	Other Income
3	DVVNL	2,159.69	Receivable from State Government	General Reserve
4	PVVNL	886.42	Receivable from State Government	General Reserve
5	KESCO	540.24	Receivable from State Government	Other Income
	Total	6278.47		

From the year 2021-22 and onwards, the General Reserve Account/ Retained Earnings (Accumulated Deficit) is being amortised, on the basis of actual year-wise receipt of subsidy from GoUP, by debiting to General Reserve Account/Retained Earnings (Accumulated Deficit) and crediting to Other Income.

11. *Comment/Observation of Government Supplementary Audit:*

(A) With respect to the accounting for the additional revenue subsidy of Rs. 14,661.53 crores (as mentioned above in paragraph 10A above), the views as per supplementary audit comments issued on the financial statements of the PVVNL and PuVVNL for the F.Y. 2020-21 are as follows:

(i) PVVNL: The additional revenue subsidy of Rs. 8,260.03 crores is receivable from the State Government in the next 10 years as per Government Order (GO) dated 5th March 2021 issued by the State Government, which was allocated to PVVNL by the Company vide letter dated 26th October 2021. The amount of subsidy receivable in next 10 years should have been accounted for as 'Deferred Income' in terms of paragraph 55 of Ind AS 1, which provides for inclusion of additional line item in the Balance Sheet. However, amount of Rs. 8,260.03 crores receivable from the State Government has been adjusted in General Reserve instead of booking as Deferred Income. Thus, incorrect

depiction has resulted in overstatement of General Reserve and understatement of Deferred Income by Rs. 8,260.03 crores each.

(ii) PuVVNL: The additional revenue subsidy of Rs. 6,401.50 crores is receivable from the State Government in the next 10 years as per GO dated 5th March, 2021 issued by the State Government, which was allocated to PuVVNL by the Company vide letter dated 26th October 2021. The amount of subsidy receivable in next 10 years should have been accounted as 'Deferred Income' in terms of paragraph 55 of Ind AS 1, which provides for inclusion of additional line item in the Balance Sheet. However, amount of Rs. 6,401.50 crores receivable from the State Government has been adjusted in Accumulated Deficit as adjustment against Reserves and Surplus instead of booking as Deferred Income. Thus, incorrect depiction has resulted in understatement of Accumulated Deficit (being negative) and Deferred Income by Rs. 6,401.50 crores each.

(B) In respect of the accounting treatment made in accounts for subsidy of Rs. 6,278.47 crores as mentioned above in paragraph 10(B) above, the views as per supplementary audit are as follows:

(i) The above also includes Rs. 1,714.04 crores being claim of UDAY Loss subsidy made by PuVVNL in addition to the admissible amount as per the actual loss incurred by it in previous years. As per clause 1.2(i) of the tripartite MoU signed on 30th January 2016 among the Ministry of Power, Government of India (GoI), State Government and the Company (on behalf of all DISCOMs), the admissible period for claim of UDAY loss subsidy has expired in 2020-21. Further, PuVVNL has already accounted inadmissible UDAY loss subsidy receivable from State Government in its accounts for the year ending up to 2020-21. Hence, accounting of additional UDAY loss subsidy resulted in understatement of accumulated deficit (being negative) and overstatement of Receivable from State Government by Rs. 1,714.04 crores.

(ii) The above includes Rs. 3,046.10 crores (DVVNL: Rs. 2,159.69 crores and PVVNL: Rs. 886.41 crores) being claim of UDAY Loss subsidy made by the Company in addition to the admissible amount as per the actual loss incurred by it in previous years. As per clause 1.2(i) of the tripartite MoU signed on 30th January 2016 among the Ministry of Power, Government of India (GoI), State Government and the Company (on behalf of all DISCOMs), the admissible period for claim of UDAY loss subsidy has expired in the year 2020-21. Further, the Company has already accounted for UDAY loss subsidy receivable from State Government in its accounts for the year ending up to 2020-21. Hence, accounting of additional UDAY loss subsidy resulted into overstatement of General Reserve and Receivables from State Government by Rs. 3,036.10 crores.

(iii) The above includes Rs. 1,518.32 crores (MVVNL: Rs. 978.08 crores and KESCO: Rs. 540.24 crores) being claim of UDAY Loss subsidy made by the Company in addition to the admissible amount as per the actual loss incurred by it in previous years. As per clause 1.2(i) of the tripartite MoU signed on 30th January 2016 among the Ministry of Power, Government of India (GoI), State Government and the Company (on behalf of the all DISCOMs), the admissible period for claim of UDAY loss subsidy has expired in 2020-21. However, the Companies have accounted inadmissible UDAY loss subsidy receivable from State Government in their accounts for the year ending up to 2020-21.

{The Company's views on above audit comment of Rs. 6278.47 crores: - If in the supplementary AG's Audit, it had been agreed with the admissibility of the subsidy of Rs. 6,278.47 crores under UDAY as per State Government's aforesaid notification dated 05-03-2021, the view in the final comments on Rs. 6278.47 related to UDAY would have been the same as in the case of accounting of the additional revenue subsidy of Rs. 14,661.54 crores.}

(C) Government Supplementary Audit comment on Disclosures:

“It has been disclosed by the Company that as per GO dated 05.03.2021 of State Government, the subsidy of Rs. 20,940 crores is receivable from the State Government in favour of DISCOMs through the Company and the same are to be paid by the State Government in the forthcoming 10 years. This amount includes Rs. 14,661.54 crores being balance amount of additional revenue subsidy and Rs. 6,278.46 crores being UDAY loss subsidy. The UDAY loss subsidy was claimed from the State Government in addition to the admissible amount as per actual loss incurred by the DISCOMs in the period ending upto 2020-21.

As per the aforesaid GO dated 05 March 2021, State Government has accepted to provide additional revenue subsidy of Rs. 39,743 crores to the DISCOMs for the period 2007-08 to 2019-20 as approved by SERC through its Tariff/True-up Orders issued from time to time. The above GO also provided that, out of total additional revenue subsidy of Rs. 39,743 crores, Rs. 25,081.46 crores shall be deemed to be paid from the grants provided to the DISCOMs by the State Government under UDAY in earlier years. The balance amount of Rs. 14,661.54 crores shall be paid to the DISCOMs by State Government in the next 10 years, commencing from 2021-22. The Company vide its letter dated 26 October 2021, has allocated the above additional revenue subsidy as below:

S.No.	Name of DISCOM	Amount (Rs. in Crores)
1	M Vidyut Vitran Nigam Limited	3490.00
2	Pu Vidyut Vitran Nigam Limited	12367.00
3	P Vidyut Vitran Nigam Limited	14673.00
4	D Vidyut Vitran Nigam Limited	9213.00
5	K Electricity Supply Company Limited	0.00
	Total	39743.00

The facts in para 2 above being material requiring specific accounting treatment should also have been disclosed in the Notes to the Accounts to enable better understanding of financial information.”

12. *Comment/Observation of Statutory Auditors:*

The comment of statutory auditors as given in the consolidated financial statements of the Company for F.Y. 2021-22 is as under:

“Group has shown Rs. 16940.00 crores subsidy receivable from State Government as Non-Current Assets Note No. 8 towards Atmnirbhar Bharat Scheme which is receivable in 10 years as per G.O. no 445-1-24-731 (Budget)/2020 dated 05.03.2021 of State Government. The corresponding amount is credited in “Other Equity” (Retained Earnings). Considering the principle of Revenue Recognition and Ind AS 20, subsidy should be accounted for on annual basis based on the budget provision/release subsidy by the State Government. In view of above, subsidy receivable as mentioned in Non-current assets is overstated and Other Equity (negative) is understated to that extent.”

The querist has mentioned in the above context that the Statutory Auditor has given comment on the subsidy of Rs. 16940 crores {non-current assets} instead of Rs. 20,940 crores as sanction of subsidy of Rs. 4000 crores as per budget of State Government was received before finalisation of consolidated financial statements.

B. Query

13. In view of the final comment of the government auditor as well as comment of statutory auditor and the different accounting treatment given by the DISCOMs, the Company seeks the opinion of the Expert Advisory Committee of the Institute of Chartered Accountants of India (ICAI) on the following issues considering the specific facts and circumstances as described above in the Facts of the Case:

- (a) What accounting should have been done by the DISCOMs in financial year 2020-21 in respect of the subsidy of Rs. 20,940.00 crores receivable from State Government?
- (b) Since the accounts of the DISCOMs for the F.Y. 2021-22 and 2022-23 have been finalised, what would be the correct and prudent consequential accounting treatment/adjustment which is to be given in the ensuing accounts in hand, i.e., F.Y. 2023-24.
- (c) In case, any correction is required in the year 2020-21 towards the accounting of subsidy, what would be the necessary disclosure which are required to be given in the financial statements of the Company/DISCOMs in F.Y. 2023-24.

C. Points considered by the Committee

14. The Committee notes that the Company is a State Government Company and is primarily engaged in bulk purchase of power from inter-state and intra-state generators and in bulk sale/ supply of power to the DISCOMs (being its subsidiaries). The tariff for supply of power by DISCOMs to consumers (including subsidy receivable against subsidised consumers) is regulated/approved by the State Electricity Regulation Commission (SERC). The Company has been receiving grants/subsidies from the State Government/Central Government on behalf of the DISCOMs under various schemes and subsequently allocates/transfers it to the respective DISCOMs. The Committee presumes that these grants/subsidies are not given by the government in its capacity of being a shareholder/owner of the Company and instead represent government grant as per Ind AS 20. The Committee notes that the basic issue raised by the querist relates to accounting treatment of Rs. 20,940 crores subsidy received or receivable in respect of certain grants receivable under Uday Scheme and those under additional tariff/revenue subsidy as per Ind AS 20 by the DISCOMs. 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 by the Company, allocation to tariff subsidy and UDAY subsidy, allocation to DISCOMs, fulfilment of conditions related to the grants, accounting for issuance of state government-guaranteed DISCOM bonds, expiry or admissibility of grant under UDAY scheme, application (if any) of Ind AS 114, 'Regulatory Deferral Accounts', adjustment of the additional revenue subsidy against the subsidy under UDAY, accounting for earlier subsidy received or adjusted of Rs. 29,350.32 crores, presentation requirements under Schedule III to the Companies Act, 2013, etc. The Committee has answered the issue only from accounting perspective and not from legal perspective, such as, legal interpretation of MoU or Trueing up order of SERC, various orders of Government and the schemes under which the subsidies or grants were provided, etc. Further, the Indian Accounting Standards referred to in the Opinion are the Standards notified under the Companies (Indian Accounting Standards) Rules, 2015, as revised or amended from time to time.

15. The Committee notes the following paragraphs of Indian Accounting Standard (Ind AS) 20, 'Accounting for Government Grants and Disclosure of Government Assistance':

“Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.

Grants related to income are government grants other than those related to assets.”

From the above, the Committee notes that grants related to assets are those grants whose primary condition is that an enterprise qualifying for them should purchase, construct or otherwise acquire long-term asset and other grants are classified as grant related to income. Thus, in case of grants related to assets, primary condition is purchase, construction or acquisition of long-term assets.

As per the Facts of the Case, the Committee notes that the main objective of the grants under consideration in the extant case appears to be to provide financial support for the operating activities of the DISCOMs:

- The additional tariff subsidy appears to be in lieu of the revenue foregone in view of the regulated or subsidised price and should be considered as grant related to income.
- The UDAY scheme is a financial restructuring programme whose basic objectives is to reduce part of the debt burden (by providing subsidy) and improve operational efficiencies rather than acquire any tangible/intangible asset.

Thus, the grants in the extant case are grants related to income.

16. With regard to the accounting for the grants, the Committee notes the following requirements of Ind AS 20:

“12 Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.”

“17 In most cases the periods over which an entity recognises the costs or expenses related to a government grant are readily ascertainable. Thus grants in recognition of specific expenses are recognised in profit or loss in the same period as the relevant expenses. Similarly, grants related to depreciable assets are usually recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised.”

“19 Grants are sometimes received as part of a package of financial or fiscal aids to which a number of conditions are attached. In such cases, care is needed in identifying the conditions giving rise to costs and expenses which determine the periods over which the grant will be earned. It may be appropriate to allocate part of a grant on one basis and part on another.

20 A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable.

21 In some circumstances, a government grant may be awarded for the purpose of giving immediate financial support to an entity rather than as an incentive to undertake specific expenditures. Such grants may be confined to a particular entity and may not be available to a whole class of beneficiaries. These circumstances may warrant recognising a grant in profit or loss of the period in which the entity qualifies to receive it, with disclosure to ensure that its effect is clearly understood.

22 A government grant may become receivable by an entity as compensation for expenses or losses incurred in a previous period. Such a grant is recognised in profit or loss of the period in which it becomes receivable, with disclosure to ensure that its effect is clearly understood.”

With respect to timing of recognition of grant, the Committee also notes the following paragraphs of Ind AS 20:

“7 Government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that:

(a) the entity will comply with the conditions attaching to them; and

(b) the grants will be received.

8 A government grant is not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be

received. Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.”

17. The Committee notes from the Facts of the Case that the Tariff for distribution/supply (including subsidy chargeable/receivable against subsidised consumers) is regulated/approved by the State Electricity Regulation Commission (SERC) and is a subsidised/concessional price. Thus, the tariff subsidy is not in relation to any specific expense incurred by the DISCOM; rather it appears to be the compensation for loss of tariff for the DISCOM due to subsidised/concessional tariff (as fixed by the SERC/ government) to be charged to the consumer. Therefore, the subsidy is received in return for compliance with certain conditions including supply of power at subsidised or concessional rates. Accordingly, the Committee is of the view that the tariff subsidy should be recognised in the Statement of Profit and Loss in the period in which the related power is supplied provided there is reasonable assurance of receipt of grant and compliance of other conditions attached to the subsidy, as per paragraph 7 of Ind AS 20.

The Committee notes that as per the Facts of the Case, the tariff subsidy aggregating to Rs. 39,743.00 crores for F.Y. 2007-08 to F.Y. 2019-20 was not recognised in the relevant years due to lack of reasonable assurance as required by paragraph 7 of Ind AS 20. In F.Y. 2020-21, the Government Order dated 05-03-2021 determined the tariff subsidy to be Rs. 14,661.54 crores and this was to be received by the DISCOMs in 10 installments from F.Y. 2021-22. Of these, 3 installments have been received.

The Committee is of the view that irrespective of receipt of funds, the tariff subsidy (relating to power already supplied at concessional rate) should have been recognised in the financial year in the Statement of Profit and Loss with a corresponding cash or asset (subsidy receivable) when the requirements of paragraph 7 of Ind AS 20 were met; in other words, the subsidy should be recognised only as and when there is reasonable assurance that the related criteria are met. As clarified in paragraph 8 of Ind AS 20, mere receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled. In this regard, the Committee notes that the querist has stated in the context of the amount of subsidy of Rs. 20,940 crore (which also includes subsidy under UDAY scheme) that the Company shall comply the conditions *after* receipts of fund/amount from the State Government. Thus, it is not clear that whether there are any substantive conditions to be complied with in relation to the additional revenue subsidy other than supply of power. Therefore, if even at the time of receipt of funds, there are pending substantive conditions related to tariff subsidy and the reasonable assurance criteria are not met, the grant should not be recognised and the funds received towards the grant should be recognised as liability (deferred income). However, if there are no substantive conditions related to grants to be complied with and there is reasonable assurance about receipt of grant due to the Order of the State Government in the F.Y 2020-21 (even though funds are not received), the subsidy should be recognised in that financial year in the Statement of Profit and Loss with a corresponding asset (subsidy receivable).

In the above context, the Committee notes that the DISCOMs had recognised tariff receivable in the F.Y. 2020-21 with a corresponding credit to general reserve/retained earnings (which is subsequently being amortised to profit or loss on the basis of actual year-wise receipt of subsidy). As stated above, if the requirements of paragraph 7 were not met, then the recognition of asset was not appropriate. However, if requirements of paragraph 7 were met and the recognition of asset was appropriate, the corresponding credit should have been recognised in

the Statement of Profit and Loss. The credit to general reserves/retained earnings is not in compliance with Ind AS 20.

18. As regards the subsidy under UDAY Scheme, the DISCOMs will receive funds from the State Government (through the Company) which can be used only for discharge of specified outstanding debt. The Committee notes that while it is stated that there is a reasonable assurance that grant shall be received from the State Government in the next 10 years from the F.Y. 2021-22, it is also stated that the Company shall comply with the conditions *after* receipts of fund/amount from the State Government. Thus, it appears that the entitlement of grant under this scheme is subject to various substantive conditions. Therefore, the discussion in paragraph 17 above would also apply for timing of recognition of the grant under UDAY Scheme. Thus, if there are pending substantive conditions related to the subsidy and the reasonable assurance criteria are not met, the grant/subsidy should not be recognised even if the funds have been received; the subsidy should be recognised only and when there is reasonable assurance that the required criteria as per Ind AS 20 are met.

In the above context, the Committee notes that some of the DISCOMs had recognised the subsidy receivable in the F.Y. 2020-21 with a corresponding credit to general reserve/retained earnings (which is subsequently being amortised to profit or loss on the basis of actual year-wise receipt of subsidy). As stated above, if the requirements of paragraph 7 were not met, then the recognition of asset was not appropriate. But if requirements of paragraph 7 were met and the recognition of asset was appropriate, the corresponding credit should have been recognised in the Statement of Profit and Loss instead of general reserves/retained earnings.

19. The Committee is further of the view that in the extant case, since the DISCOMs did not follow the above-mentioned requirements of Ind AS 20, as discussed above, the same should be rectified in the current reporting period, considering it as an accounting error, as per the following requirements of Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors':

“Prior period errors are omissions from, and misstatements in, the entity’s financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) was available when financial statements for those periods were approved for issue; and**
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.**

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.”

“41 Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind ASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity’s financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until

a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 42–47).

42 Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:

- (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or**
- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.”**

Thus, in the extant case, the DISCOMs shall correct material prior period errors retrospectively in the current reporting period, i.e., F.Y. 2023-24 by restating the comparative amounts for the prior period(s) presented in which the error occurred or if the error occurred before the earliest prior period presented, by restating the opening balances of assets, liabilities and equity for the earliest prior period presented. Further, necessary disclosures as per the requirements of Ind AS 8 (paragraph 49) and Ind AS 1, ‘Presentation of Financial Statements’ (including presentation of a third balance sheet at the beginning of the preceding period) should be made.

D. Opinion

20. On the basis of the above, the Committee is of the following opinion on the issues raised in paragraph 14 above:

- (a) Refer paragraphs 17 and 18 above.
- (b) Since the DISCOMs did not follow the requirements of Ind AS 20, as discussed above, the same should be rectified in the current reporting period, i.e., F.Y. 2023-24 considering it as an accounting error, as per the requirements of Ind AS 8, as discussed in paragraph 19 above.
- (c) For necessary disclosures, refer to the requirements of Ind AS 8 and Ind AS 1.
