

## **“Impact Of Ind AS Implementation- A Study On Property, Plant & Equipment & Capital Work In Progress Of Select Indian Companies”**

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### **ABSTRACT:**

Cross border transactions and free capital flow across nations is the essence of modern economies. The existing Accounting Standards had limitations to deal with diversified business transactions and structure and hence to revamp this, Ind AS was implemented by the Ministry of Corporate Affairs (MCA) on 16-02-2015 when it issued a notification for Indian Accounting Standards (Ind AS). No individual or business unit can operate in isolation and thus it is imperative to analyze the impact of the exercise of implementation of newly conceptualized Ind AS on the financial statements of the firm. The study has been directed to understand implementation of Ind AS on the position of Property, Plant & Equipment (PPE) & Capital Work in Progress (CWIP) of select Indian firms as per roadmap of Ind AS implementation. The study also attempts to catalogue the reasons of variations in position of PPE as well as CWIP due to application of Ind AS.

**Key words:** Ind AS, ICAI, Cross Border, GAAP, PPE, CWIP

### **INTRODUCTION:**

India is a country with diversified set of business operations and with a vision to become a global business hub, the Indian corporates have to compete with the foreign counterparts. Thus, Foreign Direct Investment (FDI) becomes a necessity for the Indian Corporates to go global. To attract the FDI, it is important to have a harmonized set of financial statements. In India, the initiative of convergence to IFRS through Ind AS was proposed to be implemented from 2011 but due to various factors it got delayed and finally, the Companies (Indian Accounting Standards) Rules, 2015 covering revised roadmap of implement of Ind AS were set by Ministry of Corporate Affairs. This led to the process of Ind AS implementation in India.

### **LITERATURE REVIEW:**

*Pareek (2015)* in his study concluded that there is a lack of mindfulness about the new standards which needs to be addressed in due course. The study also suggested mandatory inclusion of new standards in the educational programs. Knowledge seminars and workshops need to be held to confer information about the new standards.

*Kantayya & Panduranga (2017)* made a comprehensive investigation of financials presented in Indian GAAP (I-GAAP) and IFRS of IT Companies and established that there were quantitative variances in the financials prepared under the two frameworks.

*Thomas & Lukose (2018)* studied the financial statement effect on convergence and revealed that convergence to Ind AS will be beneficial for the Indian Companies which look forward to growing globally and this would also do great to Indian economy in the future.

*Jani & Gogri (2018)* analyzed the consequence of using Ind AS upon Corporate Governance practices & observed that this will be a value addition in Corporate Governance.

*Das & Das Moapatra (2020)* studied the impact of Ind AS implementation and revealed that the impact is positive for most of the corporates across all sectors and more favorable for FMCG, metal, Oil and power industries.

#### OBJECTIVES OF THE PRESENT STUDY:

The study was carried out to accomplish the objectives presented below-

1. To study and analyze the impact of Ind AS implementation on the position of PPE as well as CWIP of select Indian Companies.
2. To identify the reasons impacting the status of PPE & CWIP of select Indian Companies post Ind AS implementation.

#### METHODOLOGY OF THE PRESENT STUDY:

The present research paper is designed with the aid of secondary data from financial statements compiled from the published Annual Reports of BSE 30 companies. Since Ind AS was not applicable for Banks, Insurance Companies and NBFC in Phase-I, such companies were not included in the sample and accordingly 9 (Nine) companies were therefore excluded. Accordingly, the data for the adoption year 2016-2017 and comparative year 2015-16 was collected using the selected companies' annual reports for analysis. The figures of AS were collected using the published Annual Report for the year 2015-2016 and the figures of Ind AS were collected from the comparatives using the published Annual Report for the year 2016-2017.

**Table 1.1: Sample Companies selected for Study**

Sl. No.	Name of the Business Corporation	Sl. No.	Name of the Business Corporation
1	Bharti Airtel Limited	11	Bajaj Auto Limited
2	ITC Limited	12	Hero MotoCorp Limited
3	Larsen & Toubro Limited	13	Mahindra & Mahindra Limited
4	Maruti Suzuki India Limited	14	Tata Motors Limited
5	NTPC Limited	15	HCL Technologies Limited
6	Oil & Natural Gas Corporation Limited	16	Infosys Limited
7	Sun Pharmaceutical Industries	17	Tech Mahindra Limited
8	Tata Steel Limited	18	Hindustan Unilever Limited
9	Tata Consultancy Services Limited	19	Vedanta Limited
10	Asian Paints Limited	20	Power Grid Corporation of India Limited
		21	Reliance Industries Limited

**ROADMAP OF CONVERGENCE TO Ind AS:**

The MCA issued a revised road map on 16-02-2015 for the application of Ind AS in which Ind AS application was voluntary from 01-04-2015 and mandatory with effect from 01-04-2016 for certain class of companies excluding Banks, Insurance Companies and NBFC. Under Phase –I, all companies which had Net worth greater or equal to Rs. 500 Crore were mandatorily required to go for implementation of Ind AS from 01-04-2016.

**ANALYSIS OF PROPERTY, PLANT & EQUIPMENT (PPE) & CAPITAL WORK IN PROGRESS (CWIP) BEFORE & AFTER Ind AS IMPLEMENTATION:**

Property, Plant & Equipment (PPE) are the long-term, tangible form of assets owned by any company. Also referred to as Fixed Assets, they usually have a life of more than a year. Prospective investors and analysts look at the reported PPE figures to determine the nature of capital expenditure of the company and the means of raising funds. Capital work in Progress (CWIP) is the portion of expenditure on fixed assets which are in the construction process or completion. These assets are not set for the planned use at the point of incurring expenditure.

**Table 1.2 Table showing variations in Property, Plant & Equipment figures of selected Companies as per AS & Ind AS**

Sl. No.	Name of the selected Company	Property, Plant & Equipment (₹ in Crores)			
		AS	Ind AS	Difference	% (Diff/AS) x100
1	Bharti Airtel Limited	33,981.40	34,126.10	144.70	0.43
2	ITC Limited	16,286.85	15,980.38	(306.47)	(1.88)
3	Larsen & Toubro Limited	7,371.28	7,383.11	11.83	0.16
4	Maruti Suzuki India Limited	13,427.80	13,170.00	(257.80)	(1.92)
5	NTPC Limited	1,57,571.86	1,57,704.95	133.09	0.08
6	Oil & Natural Gas Corporation Limited	1,19,830.58	1,10,883.73	(8,946.85)	(7.47)
7	Sun Pharmaceutical Industries Limited	4,280.63	4,281.74	1.11	0.03
8	Tata Steel Limited	51,855.14	77,735.06	25,879.92	49.91
9	Tata Consultancy Services Limited	11,331.06	10,696.00	(635.06)	(5.60)
10	Asian Paints Limited	2,625.76	2,625.76	--	--
11	Bajaj Auto Limited	1,963.27	1,963.27	--	--
12	Hero MotoCorp Limited	4,006.19	3,753.80	(252.39)	(6.30)
13	Mahindra & Mahindra Limited	7,137.50	6,777.26	(360.24)	(5.05)
14	Tata Motors Limited	13,722.49	19,131.20	5,408.71	39.41
15	HCL Technologies Limited	3,655.87	3,398.36	(257.51)	(7.04)
16	Infosys Limited	9,182.00	9,182.00	--	--
17	Tech Mahindra Limited	2,907.20	2,804.60	(102.60)	(3.53)
18	Hindustan Unilever Limited	3,300.70	3,300.70	--	--

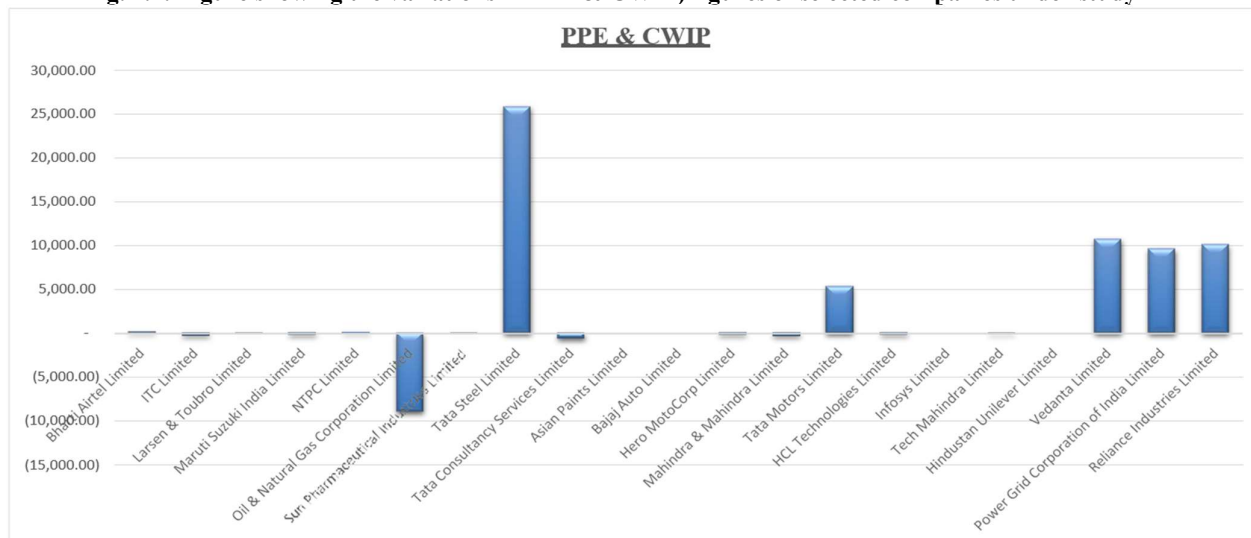
19	Vedanta Limited	44,246.20	55,010.52	10,764.32	24.33
20	Power Grid Corporation of India Limited	1,49,108.59	1,58,737.48	9,628.89	6.46
21	Reliance Industries Limited	2,38,289.00	2,48,448.00	10,159.00	4.26

Source: Published Audited Financial Statements of Selected Companies for the year 2015- 2016 & 2016-2017

### PICTORIAL REPRESENTATION

The above analysis has been presented by way of a pictorial presentation:

**Fig. 1.1: Figure showing the variations in PPE & CWIP) figures of selected companies under study**



Source: Published Audited Financial Statements of selected Companies for the year 2015-2016 & 2016-2017

### Hypothesis Testing

The researcher has compiled the data pertaining to pre and post implementation of Ind AS for the F.Y. 2015-16 of sample companies w.r.t. PPE and CWIP and to assess the significance, paired T- Test has been used. A null hypothesis for the purpose of analysis of secondary data has been formulated.

### Hypothesis: Property Plant & Equipment and Capital Work in Progress

*H0: No significant impact exists in the Property, Plant & Equipment (PPE) as well as Capital Work in Progress (CWIP) figures of sample companies post implementation of Ind AS.*

The above Hypothesis examines the influence of Ind AS on the PPE & CWIP of sample companies.

**Table 1.3: Table Showing T- Test Values of PPE as well as CWIP of selected companies**

PPE & CWIP	N	Mean	Standard Deviation	Std. Error of Mean	Mean Difference	t	df	Sig. (P-Value)
AS	21	42670.54	65877.96	14375.75	(2429.14)	-1.600	20	0.125
IND AS	21	45099.68	68109.25	14862.66				

The mean of AS values is 42670.54 and Ind AS values is 45099.68. Mean difference of both AS and Ind AS values is (2429.14). The Standard Deviation values for AS is 65877.96 and the same for Ind AS is 68109.25. The difference between AS and Ind AS values for PPE & CWIP discloses that there is no significant difference at 5% level. The calculated  $t = -1.600$ , ( $P = 0.125$ ) is smaller than tabulated value of  $t = 2.086$  at  $df = 20$ . Thus, we conclude that there is no significant impact in the PPE & CWIP figures of sample firms post implementation of Ind AS.

A detailed analysis with respect to published Annual audited financial statements of the selected companies has been

carried out to understand the reasons for changes in the reported figures post implementation of Ind AS for PPE as well as CWIP.

**Table 1.4 Table showing analysis of changes in figures of selected companies for PPE & CWIP**

Sl. No	Name of the selected Company	Change in PPE & CWIP post implementation (in Crores)	Reasons for Changes in PPE & CWIP figures
1	Bharti Airtel Limited	144.70	Changes in decommissioning, restoration & other liabilities. Decapitalization of the Gain or Loss in Foreign Exchange pursuant to the provisions in Ind AS 21.
2	ITC Limited	(306.47)	Within the ambit of non-current assets, the leasehold properties were classified as prepayments rather than Fixed Assets. Amortization over the lease period was accounted for.
3	Larsen & Toubro Limited	11.83	Application of Ind AS 111- Joint Ventures
4	Maruti Suzuki India Limited	(257.80)	No Explanation provided by the company in the financial statements.
5	NTPC Limited	133.09	Major overhauls were capitalized, and repair & maintenance expenses were reversed, transaction cost adjustment, amortization of the leased land treated as finance lease. Capitalization of stores and spares and corresponding reversal of repair & maintenance expenses.
6	Oil & Natural Gas Corporation Limited	(8,946.85)	Application of discounting to decommissioning provisions. Classification of Leasehold Land for perpetual period as finance lease. Within the ambit of non-current assets, the leasehold properties were classified as prepayments rather than Fixed Assets. Amortization over the lease period was accounted for. Capitalization of Dry Dock expenses.
Sl. No	Name of the selected Company	Change in PPE & CWIP post implementation (in Crores)	Reasons for Changes in PPE & CWIP figures
7	Sun Pharmaceutical Industries Limited	1.11	Decapitalization of the Gain or Loss in Foreign Exchange pursuant to the provisions in Ind AS 21.
8	Tata Steel Limited	25,879.92	Fair Value is treated as deemed cost on transition date for certain Items of PPE and thus there is uplift in carrying value and additional depreciation.
9	Tata Consultancy Services Limited	(635.06)	Change in method of depreciation from WDV to SLM. The same has been accounted for prospectively as a modification in accounting estimate.
10	Asian Paints Limited	--	Not Applicable.
11	Bajaj Auto Limited	--	Not Applicable.

12	Hero MotoCorp Limited	(252.39)	As per Ind AS leasehold land has been considered as operating lease as opposed to fixed assets under AS. This has resulted in change in depreciation.
13	Mahindra & Mahindra Limited	(360.24)	Decapitalization of the Gain or Loss in Foreign Exchange pursuant to the provisions in Ind AS 21.
14	Tata Motors Limited	5,408.71	Decapitalization of the Gain or Loss in Foreign Exchange pursuant to the provisions in Ind AS 21.
<b>Sl. No</b>	<b>Name of the selected Company</b>	<b>Change in PPE &amp; CWIP implementation (in Crores)</b>	<b>Reasons for Changes in PPE &amp; CWIP figures</b>
15	HCL Technologies Limited	(251.51)	Classification of Leasehold Land as Operating lease has resulted in reclassification of expenses from depreciation to rent expense.
16	Infosys Limited	--	Not Applicable.
17	Tech Mahindra Limited	(102.60)	Fair Value is treated as deemed cost on transition date for certain Items of PPE and thus there is uplift in carrying value and additional depreciation.
18	Hindustan Unilever Limited	--	Not Applicable
19	Vedanta Limited	10,764.32	Fair Value is treated as deemed cost on transition date for certain Items of PPE and thus there is uplift in carrying value and additional depreciation. Decapitalization of the Gain or Loss in Foreign Exchange pursuant to the provisions in Ind AS 21.
20	Power Grid Corporation of India Limited	9,628.89	Bilateral Lines have been assessed as finance lease pursuant to application of Ind AS. The same were treated as part of Property, Plant & Equipment under existing AS.
21	Reliance Industries Limited	10,159.00	Under previous AS the Asset Retiring obligations were measured at Cost. The same is measured at fair Value as per provisions of Ind AS.

**Source: Published Financial Statements of Sample Companies of the period 2015-2016 & 2016-2017**

#### **CONCLUSION:**

The figures of Property, Plant & Equipment and also Capital Work in Progress for companies implementing Ind AS has been affected due to various adjustments applied as per paras for exemptions specified in Ind AS 101. While many companies have availed the exemptions, few companies did not opt for all the exemptions provided. As a result, there were changes seen in the reported figures of the selected companies under study. However, after conducting a statistical analysis it is found that impact is not significant in the Property, Plant & Equipment (PPE) as well as Capital Work in Progress (CWIP) figures for the sample companies post implementation of Ind AS. Hence the researcher has found that

the position of PPE & CWIP of the companies did not see a significant change post implementation.

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