I. Companies (Corporate Social Responsibility Policy) Amendment Rules, 2022

The Ministry of Corporate Affairs ('MCA') has recently issued **Companies (Corporate Social Responsibility Policy) Amendment Rules, 2022.** Some of the key changes are summarised as under:

1. It prescribes that company having any amount in its Unspent Corporate Social Responsibility Account has to continue to constitute a CSR Committee; and comply with the provisions contained in sub-section (2) to (6) of Section 135 of the Act irrespective of the fact that in subsequent years it is not covered under subsection (1) of section 135 of the Companies Act, 2013 ('the Act'). As per earlier provisions, company which ceased to be a company covered under subsection (1) of section 135 of the Act for three consecutive financial years was not required to constitute a CSR Committee; and comply with the other provisiosn of Section 135 of the Act till such time it meets the criteria again as specified in sub-section (1) of section 135 of the Act.

2. The company having average CSR obligation of Rs. 10 crore or more in the three immediately preceding financial years is required to undertake impact assessment, through an independent agency in respect of specified projects. The impact assessment reports is placed before the Board and is laos annexed to the annual report on CSR.

   For such companies, earlier it was allowed to book the expenditure towards Corporate Social Responsibility for that financial year upto lower of 5 % of the total CSR or Rs. 50 lakhs. As per the amendement, the said expenditure is restricted to the higher of 2% of the total CSR or Rs. 50 lakhs.

II. Expert Advisory Committee Opinion:

1. Adoption of 'Net Book Value' method as one of the valuation technique to measure the fair value of investments in equity instruments that do not have a quoted market price in an active market:

A. Background:

The Expert Advisory Committee ('EAC') of the Institute of Chartered Accountants of India ('ICAI') has issued an opinion in respect of the Adoption of 'Net Book Value' method as one of the valuation techniques to measure the fair value of investments in equity instruments that do not have a quoted market price in an active market.

Through public and private partnership (PPP) mode, the Company as a promoter shareholder had invested in A Corporation Ltd. Further, the Company held shares in two other entities, viz., its joint venture, X Ltd. and Y Consumer Co-operative Society Limited. All these three investments were disclosed in the 'Investment' schedule in the Company's balance sheet.

During the course of the supplementary audit, the C&AG audit team issued an audit query stating that "Valuation of investment in equity shares of A Corporation Ltd. as per net book value method instead of cost had resulted in an overstatement of Investments".

B. Key Issues:

Whether the adoption of 'Net Book Value' method by the Company as one of the valuation techniques to measure the fair value of investments in equity instruments of A Corporation Ltd. that did not have a quoted market price in an active market was in order or whether should be measured at cost?

C. Basis of opinion:

- Ind AS 109 – 'Financial Instruments'
- Ind AS 113 – 'Fair Value Measurements'

D. Key Principles Applied & Conclusion:

i. In the context of the issue raised, the EAC referred to Ind AS 109, - As per paragraph D19B of Ind AS 101, 'First time Adoption of Indian Accounting Standards' gives an option to designate an investment in an equity instrument as at fair value through other comprehensive income in accordance with paragraph 5.7.5 of Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind ASs.

ii. Further, the EAC noted that as per Ind AS 109, all investments in equity instruments are to be measured at fair value irrespective of whether these are quoted or not quoted in an active market except in limited circumstances, where cost may be an appropriate estimate of fair value, as per paragraphs BS.2.3 to BS.2.5

iii. With regard to the measurement of investment in A Corporation Ltd at fair value, the EAC enunciated that as per the requirements of Ind AS 109, fair value has to be determined as per the requirements of Ind AS 113, 'Fair Value Measurements'.

iv. The EAC noted that the investment in the extant case was made in A Corporation Ltd., which was a closely held company and not a listed company. Hence, level 1 inputs might not be available and thus, the Company shall use level 2 inputs. If level 2 inputs are not available, the Company shall use level 3 inputs that are unobservable inputs.

v. The EAC opined that:

   - As referred Since the option under paragraph D19B of Ind AS 101 has been elected by the Company for the investments in equity instruments of A Corporation Ltd, the subsequent measurement of such investments at fair value through OCI is correct.

   - With regard to using 'cost' as the basis of valuation of equity instruments, as per paragraphs B5.2.3 to B5.2.5 of Ind AS 109, all investments in equity instruments are to be measured at fair value irrespective of whether these are quoted or not quoted in an active market except in limited circumstances, where cost may be an appropriate estimate of fair value.

2. **Timing of capitalisation of transmission lines and sub-stations as an item of Property, Plant and Equipment from capital-work-in-progress and also in case of modernisation work:**

A. Background:

A wholly owned State Government Company (hereinafter referred to as 'the Company') was formed by carving out the generation, transmission and distribution function of the erstwhile State Electricity Board.

The Company had Property, Plant and Equipment (PPE) procured by way of acquisition, purchase, gift/consumers' contribution & construction of transmission lines and substations.

Work of construction of these substations and lines was carried out by the company through turnkey contracts. The installation of equipments at sub-station premises and drawing of transmission lines from one station to other was executed by turnkey contractors under the guidance and supervision of the company's engineers.

The contention of Comptroller and Auditor General (C&AG):

(1) Approval of the Chief Electrical Inspector to Government (CEIG) shall be considered for capitalising as PPE, as the asset was in the location and condition necessary for it to be capable of operating in the manner intended by the management; and asset was to be categorised and depreciation charged from the date of approval of CEIG.

(2) As station work was completed long back, the substation was ready to take the load, i.e., ready to use. Accordingly, the depreciation was to be charged from the date of completion/ ready to use irrespective of the fact of no-source power line.

(3) As per paragraph 43 of nd AS 16, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item, shall be categorised and depreciated separately.

B. Key issues:

On the basis of the above, the opinion of the EAC was sought on the following issues:

i. Whether the date of capitalisation (from CWIP to PPE) of an asset should be the date of approval from CEIG or the date of asset commissioned certificate.

ii. Can the Company capitalise an asset, pending availability of source line though all the equipments (Plant and Machinery) in the station were installed/erected but not tested

iii. Can the Company capitalise an asset pending output of power/energy from the station though all the equipments (Plant and Machinery) in the station were installed/erected, tested and CEIG approval was received?

iv. Whether the date of successful test run to be adopted as the date of capitalisation of an asset.

v. Whether on erection and connecting the equipment to the incoming source line, such equipment should be categorised though transmission of power could not be carried out.
vi. Whether the assets need to be capitalised when all the works mentioned in the Detailed Work Award (DWA) were completed by the Contractor (pending obtaining of CEIG approval and source line).
vii. Whether in case of modernisation work, the assets need to be capitalised on erecting part of the assets mentioned in the DWA though the end use of transmission of power not achieved.

C. Basis of opinion:

- Ind AS 16 – "Property, plant and equipment"

D. Key Principles Applied & Conclusions:

The EAC referred to the definition of Property, plant and equipment as given in Ind AS 16, 'Property, Plant and Equipment' and noted that an item of PPE shall be measured at cost which comprises its purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and cost of dismantling/removing and restoring the asset, and the cost of testing whether the asset is functioning properly is also an example of directly attributable cost.

The EAC further noted that the assets covered in the extant case were in the nature of self-constructed assets, and in terms of paragraph 22 of Ind AS 16, the cost of a self-constructed asset is determined using the same principles as for an acquired asset. Therefore, in the extant case, the principles for 'acquired assets' under Ind AS 16 shall be equally applicable to the self-constructed assets covered under the contract with the turnkey contractors in the extant case.

The EAC viewed that an item of capital work in progress should be transferred to the gross block of PPE when such item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

It was noted that, when the asset on which modernisation work was carried out or a component/part thereof, could be considered to be in the location and condition necessary for it to be capable of operating in the manner intended by the management as per the requirements of Ind AS 16, the same could be capitalised.

The EAC also mentioned that the company should also consider the impairment of assets, if any, considering the requirements of Ind AS 36 for assets that were taking longer time to complete due to non-availability of source line, etc.

The EAC opined that, the date or point when an asset can be considered to be in the location and condition necessary for it to be capable of operating in the manner intended by the management as per the requirements of Ind AS 16 and when an item of capital work in progress can be transferred to gross block of PPE is a matter of technological assessment and judgement. The company should consider various factors such as, technological assessments, safety parameters, various pre-requisite and substantive approvals from competent authorities, etc.

Subject to the above overall guidance, EAC opined that:

- For key issues (i) and (vi): The CEIG approval date or the date of the asset commissioned certificate might not be the sole determinant(s) for capitalisation of the asset. Further, regarding the implication on capitalisation pending source line see (iii) and (v) below.

- For key issues (ii) and (iv): Before trial/test run, the plant/asset cannot be considered to be in the location and condition necessary for it to be capable of operating in the manner intended by management as per the requirements of Ind AS 16.

- For key issues (iii) and (v): The timing of capitalisation to PPE is determined based on when the asset is ready to use and not when the asset is put to use. If the asset is ready to use but not put to use due to the non-availability of power supply in the extant case, capitalisation cannot be delayed.

- For issue (vii): In case of modernisation work, when the asset on which modernisation work is carried out or a component/part thereof, can be considered to be in the location and condition necessary for it to be capable of operating in the manner intended by the management as per the requirements of Ind AS 16, the same should be capitalised.