Presentation of the Grant Receivable from the Government of India (under SEIS) in the Statement of Profit and Loss

A. Facts of the Case

1. A company (hereinafter referred to as 'the company') was incorporated on 10th March, 1988 under the Companies Act, 1956. It is governed by the Ministry of Railways (MoR) being its administrative ministry. Main objective of the company is to serve as a catalyst in promoting containerisation and give a boost to India's international and internal trade and commerce by organising multimodal logistics support. With its excellent performance consistently over the years, the company has been conferred with Navratna Status by the Government of India.
2. The company's main function is to provide cost effective and reliable logistics support services to its customers. The bouquet of logistics services that are offered to trade comprises of operations of Inland Container Depots (ICDs), Container Freight Stations (CFSs) and Domestic Container Terminals (DCTs), transportation by rail & road, warehousing, storage, end-to-end logistics solutions, movement of refrigerated cargo in containers and other value added solutions. It has established itself as the leading logistics company in the country. The company has also grown its business by setting up subsidiaries and partnering others through strategic joint ventures, including at the leading sea ports.
3. In its journey of last 30 years, it has established a vast network of container terminals all over the country at prime locations, which are the centers for generation (origin) and consumption (destination) of cargos. It has built large capacities to meet the growing demand of Export-Import (EXIM) and domestic trade. The major portion of its revenue i.e., around 80% comes from EXIM business. Over the years, the company has played a pivotal role in development of the containerization in the country, particularly in the EXIM segment. It has done huge investments in creating logistics infrastructure in the country, which has promoted the international trade of India and going forward it has innovative plans and strategies in place to expand the said infrastructure further.
4. At present, the company is operating through 83 terminals spread across the country and it is likely to reach to 100 terminals in next few years. These terminals are connected by rail/road across the length and breadth of the country. With the help of these terminals and the other complementary resources i.e., large fleet of wagons and containers owned by the company, the company operates as a carrier, inland port operator and terminal services provider.
5. At present, the equity shares of the company are listed with Mumbai and National Stock Exchanges and its market capitalisation was approx. ₹ 32,006 crores as on 31.03.2019. The Twenty-Foot Equivalent Units (TEUs) handled and gross turnover of the company during the year 2018-19 were 3.8 million and ₹ 7,216.14 crores respectively. A copy of annual report of the company for the year 2018-19 has been supplied separately by the querist for the perusal of the Committee.
6. Under the Foreign Trade Policy (FTP) 2015-20 of the Government of India, various incentives are being provided to the trade and one of such benefit to service sector in which the company operates is Service Export from India Scheme (SEIS). The objective of SEIS as stated in the FTP is to give reward to offset infrastructural in-efficiencies and associated costs involved and to provide level playing field.
7. The SEIS benefit to the company under FTP 2015-20 are for the services being provided by the company from its Inland Container Depots (ICDs) and Container Freight stations (CFSs). At these facilities, services for handling,

transportation by rail/road of export/import laden and empty containers carried under customs control and the services related to clearance of goods for home use, warehousing, temporary admissions, re-export, temporary storage for onward transit and outright export, trans-shipment are provided. As these services are related to EXIM (i.e. Export & Import) trade of the country and are provided to Foreign Shipping Lines or their Indian agents, the company is entitled to claim SEIS benefit on the same under FTP 2015-20.

8. The revenue from all the elements of services provided at ICDs/CFSs are forming part of the company's 'Revenue from Operations'. The SEIS benefit being claimed by the company from the Authorities i.e. Directorate General of Foreign Trade (DGFT) is granted in the form of scrips (which are tradable) issued for a value arrived at a specified percentage of the above elements of revenue from operations from ICDs/CFSs. As the SEIS income is derived out of the operations of the company, the same has been considered as part of revenue from operations. This income clearly arises as a result of the company's ordinary business comprising services for export or import related to containers/cargo. Had the company not performed EXIM operations, such income would not have accrued. As such, there is a direct nexus between EXIM operations of the company and SEIS benefit accruing from it.

9. The company has recognised the SEIS benefit in its books of account in the period in which the right to receive the same is established, i.e., the year during which the services for grant of SEIS benefit are performed. Hence, SEIS income has been classified as 'export incentives' under 'revenue from operations', sub-head 'other operating income' in the statement of profit and loss.

10. The querist has stated that, SEIS benefit is a kind of Government grant, the accounting treatment and presentation of which has been laid down under Indian Accounting Standard (Ind AS) 20, 'Accounting for Government Grants and Disclosure of Government Assistance'. As per the paragraph 29 of Ind AS 20, in respect of presentation of grants related to income, "Grants related to income are presented as a part of profit or loss, either separately or under a general heading such as 'Other income'; alternatively, they are deducted in reporting the related expense."

11. From above, it is clear that Ind AS 20 gives three options for presentation of Government grants related to income in statement of profit and loss, which are (i) either separately; or (ii) under a general heading such as 'Other income'; or (iii) they are deducted in reporting the related expense. So, an entity has the option to choose any one of the method from these three.

12. Further, paragraph 31 of Ind AS 20, inter alia, states that disclosure of the grant may be necessary for a proper understanding of the financial statements. Disclosure of the effect of the grants on any item of income and expense which is required to be separately disclosed is usually appropriate.

13. In accordance with the above provision, it is clear that Ind AS 20 permits the grant related to income to be presented as part of statement of profit and loss either separately or under a general heading such as 'Other Income' or they are deducted in reporting the related expense.

14. As SEIS income in the company is based upon the operating revenue earned and it is a grant related to income, it has been shown separately as export incentives in the note to the statement of profit and loss under 'Income from Operations', sub-head 'other operating income', which is in compliance of the above provisions of Ind AS 20 that it has to be shown separately. In addition to above, the nature of this income has also been elaborated in the foot note below the above note to the statement of profit and loss.

15. The above treatment and presentation have been given consistently by the company in its financial statements for four years i.e. 2015-16 to 2018-19. The above presentation and disclosure are in accordance with Ind AS 20 and the users of the financial statements can easily understand the impact of SEIS income from the above treatment.

16. The querist has further stated that some other reputed companies are also following similar practices as is being followed by the company

for presentation of Government grants related to income. It has also been seen that these companies are classifying these grants under the head 'Other Operating Income'. This further goes on to establish that the presentation of SEIS income, which is a Government grant, by the company is in compliance with Ind AS 20 and the practices being followed by other reputed entities.

17. Accounting policy being followed by the company in respect of accounting for SEIS income at present, provides as under:

"Grants are recognised when there is a reasonable assurance that the company has complied with the conditions attached to them and it is reasonably certain that the ultimate realisation and utilisation will be made. Grants which are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the company, with no future related costs are recognized in the statement of profit & loss of the period in which they have accrued.

Grants related to depreciable assets including non-monetary grants (at fair value), are presented in the balance sheet as 'Deferred Income' of the period, in which they become receivable. Such grants are usually recognized in the statement of profit and loss over the periods in the proportions, in which depreciation expense on those assets is recognised.

The grants under 'Served from India Scheme (SFIS)' are recognized at the time of utilization of SFIS scrip towards procurement of assets and inventories. Such assets/inventories have been capitalized with a gross value from transaction date based on deemed cost exemption availed by the company.

The grants under 'Service Export from India Scheme (SEIS)' are recognised when the conditions attached with the grant have been satisfied and there is reasonable assurance that the grants will be received. These are recognized in the period in which the right to receive the same is established i.e. the year during which the services eligible for grant of SEIS have been performed."

In line with the provisions of Ind AS 20, the practices being followed by other reputed companies and the above accounting policy of the company, the SEIS claim has been presented separately as export incentives under 'revenue from operations', sub-head 'other operating income' in the statement of profit and loss . As per the accounting policy, it is being recognised as an income during the year in which the services for SEIS benefits are provided. From the above presentation of SEIS income, readers of the financial statements can clearly understand its impact on the financial statements, which as per the querist, is both in letter and spirit, a compliance of the provisions under Ind AS 20 for presentation of Government grants.

CAG's View:

18. Comptroller and Auditor General of India (CAG) did not agree with the above treatment given by the company in its financial statements for the year 2018-19 and it has in its report under section 143(6)(b) read with section 129(4) of the Companies Act, 2013 has issued comment on the said financial statements (standalone and consolidated) of the company and has stated that:

"The company has shown ₹ 339.22 crores, being grants receivable from the Government of India (under Service Export from India Scheme (SEIS)), during the current year, under 'Other Operating Income'. The same should be shown as 'Other Income' as per Ind AS 20, 'Accounting for Government Grants and Disclosure of Government Assistance'."

Management's reply on the CAG's view:

19. It appears that CAG is of the view that SEIS grants should be shown under 'Other Income' in which earnings like income from investments (interest/dividend), rent, etc. are shown. Whereas, the company has been correctly showing the same separately as export incentives under 'revenue from operations', sub-head 'other operating income' which is in accordance with Ind AS 20. Accordingly, the management of the company in reply to the above comment of CAG on its financial statements for the year 2018-19 has replied as :

"As per interpretation of the management, presentation of SEIS benefits amounting to

₹ 339.22 crores under 'Other Operating Income' has been done as per the provisions of Ind AS 20, 'Accounting for Government Grants and Disclosure of Government Assistance'. However, the matter will be referred to the Institute of Chartered Accountants of India (ICAI) for its expert advice."

B. Query

20. On the basis of the above, the opinion of the Expert Advisory Committee is sought on whether the income recognised on accounting for grant receivable from the Government of India (under SEIS) has been correctly presented by the company separately as 'export incentives' under 'revenue from operations', sub-head 'other operating income' in the statement of profit and loss or as stated by CAG in its comments, it has to be shown under 'Other Income'.

C. Points considered by the Committee

21. The Committee notes that the basic issue raised by the querist relates to the presentation of the duty credit scrips/entitlement received from the Government of India under SEIS in the statement of profit and loss. The Committee has, therefore, considered only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, nature of the grant under Ind AS 20 and other aspects of accounting, such as, recognition, timing thereof, measurement, etc.; accounting for other types of grants; etc. The opinion expressed is purely from the accounting perspective and not any other perspective such as legal interpretation of Service Export from India Scheme and the Committee has not examined the eligibility of the company under SEIS or compliance by the company with the conditions attached, etc.

22. With regard to presentation of the duty credit scrips/entitlement received from the Government of India under SEIS in the statement of profit and loss, the Committee notes the following paragraphs of Indian Accounting Standard (Ind AS) 20, 'Accounting for Government Grants and Disclosure of Government Assistance':

"29 Grants related to income are presented as part of profit or loss, either separately or under a general heading such as 'Other income'; alternatively, they are deducted in reporting the related expense.

30 Supporters of the first method claim that it is inappropriate to net income and expense items and that separation of the grant from the expense facilitates comparison with other expenses not affected by a grant. For the second method it is argued that the expenses might well not have been incurred by the entity if the grant had not been available and presentation of the expense without offsetting the grant may therefore be misleading.

31 Both methods are regarded as acceptable for the presentation of grants related to income. Disclosure of the grant may be necessary for a proper understanding of the financial statements. Disclosure of the effect of the grants on any item of income or expense which is required to be separately disclosed is usually appropriate."

23. Further, the Committee notes the following paragraphs of the Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013 (revised July, 2019), issued by the Institute of Chartered Accountants of India (hereinafter referred to as the 'Guidance Note'):

"9.1.7. Revenue from operations needs to be disclosed separately as revenue from

(a) sale of products,

(b) sale of services and

(c) other operating revenues.

It is important to understand what is meant by the term "other operating revenues" and which items should be classified under this head vis-à-vis under the head "Other Income".

9.1.8. The term "other operating revenue" is not defined. This would include Revenue arising from a company's operating activities, i.e., either its principal or ancillary revenue-generating activities, but which is not revenue arising from sale of products or rendering of services. Whether a particular income constitutes "other operating revenue" or "other income" is to be decided based on the facts of each case and detailed understanding of the company's activities."

"9.2. Other income

The aggregate of 'Other income' is to be disclosed on face of the Statement of Profit and Loss. As per Note 5 of General Instructions for the Preparation of Statement of Profit and Loss 'Other Income' shall be classified as:

(a) Interest Income;

(b) Dividend Income;

(c) Other non-operating income (net of expenses directly attributable to such income)."

24. On a reading of above paragraphs, the Committee notes that as per the requirements of Ind AS 20, the grant related to income should be presented *either separately* or under a general heading such as 'Other income'. Alternatively, it can also be deducted in reporting the related expense. Further, from the above-reproduced requirements of the Guidance Note, the Committee notes that the 'other operating revenue' includes *revenue* arising from a company's *operating activities*, i.e., either its principal or ancillary revenue-generating activities, but which is not revenue arising from sale of products or rendering of services. In this context, whether a particular income constitutes 'other operating revenue' or 'other income' is to be decided based on the facts of each case and detailed understanding of the company's activities.

The Committee notes that the objective of the Service Exports from India Scheme (SEIS), is to encourage and maximise export of notified Services from India and the eligibility criteria of the scheme is based on the net free foreign exchange earnings by the service provider. In this context, the Committee notes from the Facts of the Case that the querist has specifically stated that major portion of the revenue of the company arises from export of services and thus, exports is a key revenue generating activity of the company. Therefore, keeping in view the activities of the company in the extant case, the duty credit scrips/entitlement can be considered to arise in the course of revenue generating activities of the company. Accordingly, considering the requirements of the Guidance Note, the Committee is of the view that it may be appropriate to disclose the duty credit scrips/entitlement under SEIS as 'other operating revenue' under 'revenue from operations' in the statement of profit and loss. Further, in this connection, the Committee notes paragraph 113 of Ind AS 115, 'Revenue from Contracts with Customers', which states as follows:

"113 An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of profit and loss in accordance with other Standards:

(a) revenue recognised from contracts with customers, which the entity shall disclose separately from its other sources of revenue; and

(b) any impairment losses recognised (in accordance with Ind AS 109) on any receivables or contract assets arising from an entity's contracts with customers, which the entity shall disclose separately from impairment losses from other contracts."

The Committee notes from the above that Ind AS 115 recognises that 'revenue' could arise from sources other than contracts with customers also, which should be presented separately from 'revenue recognised from contracts with customers'. Since in the extant case, duty credit scrips/entitlement under SEIS is not in the nature of revenue received from contracts with customers, the former should be presented separately from the latter as 'other operating revenue'. The company should also give adequate disclosures (including the accounting policy for recognition of such income) so as to appropriately explain the nature of the item.

D. Opinion

25. On the basis of the above, the Committee is of the opinion that keeping in view the activities of the company, it may be appropriate to present the duty credit scrips/entitlement under Service Export from India Scheme

(SEIS) as 'other operating revenue' under 'Revenue from Operations' in the statement of profit and loss, as discussed in paragraph 24 above. The company should also give adequate disclosures (including the accounting policy for recognition of such income) so as to appropriately explain the nature of the item.

1. The Opinion is only that of the Expert Advisory Committee and does not necessarily represent the Opinion of the Council of the Institute.
2. The Opinion is based on the facts supplied and in the specific circumstances of the querist. The Committee finalised the Opinion on November 21, 2019. The Opinion must, therefore, be read in the light of any amendments and/or other developments subsequent to the issuance of Opinion by the Committee.
3. The Compendium of Opinions containing the Opinions of Expert Advisory Committee has been published in thirty six volumes. A CD of Compendium of Opinions containing thirty six volumes has also been released by the Committee. These are available for sale at the Institute's office at New Delhi and its regional council offices at Mumbai, Chennai, Kolkata and Kanpur.
4. Recent opinions of the Committee are available on the website of the Institute under the head 'Resources'.
5. Opinions can be obtained from EAC as per its Advisory Service Rules which are available on the website of the ICAI, under the head 'Resources'. For further information, write to eac@icai.in.