



PUNJAB STATE TRANSMISSION CORPORATION LIMITED

(Regd. Office: PSEB Head Office, The Mall, Patiala-147001)

Corporate Identity Number: U40109PB2010SGC033814

O/o Chief Financial Officer (A&R Section), Shakti Sadan, Patiala

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Accounts Circular No. 8/2020/PSTCL

To

All Addl. SEs/Sr. Xens/AOs (All Accounting Units)
under PSTCL

Memo No. 1320-65/CFO/A&R-20

Dated: 23.07.2020

Subject: Changes/Amendments in Significant accounting policies to be implemented for the finalization of Annual Accounts of FY 2019-20 onwards and change in accounting procedure regarding Assets taken on lease.

Ministry of Corporate Affairs (MCA), through Companies (Indian Accounting Standards) Amendment Rules-2019 and Companies (Indian Accounting Standards) Second Amendment Rules-2019, has notified on March 30, 2019, amendments to certain Ind AS effective from April 01, 2019 (i.e. from FY 2019-20 onwards). Amended Ind AS 116- Leases will replace the existing, Ind AS 17- Leases.

For the implementation of Ind AS 116 Leases in PSTCL w.e.f. 01.04.2019 (i.e. from FY 2019-20 onwards), Board of Directors in its 60th meeting held on 05.05.2020 has approved the changes/amendments in existing Significant Accounting Policies No. 2.8 – Leases besides other relevant Significant accounting policies.

The amended Significant Accounting Policies and Change in Accounting Procedure (for Leases) applicable from FY 2019-20 are as under:

Amended Significant Accounting Policies:

2.8 – Leases:

As a lessee:

- On the commencement of a Lease, the "Right-of-use" (ROU) Asset is recognized under Property, Plant & Equipment (PPE) and measured at cost. The corresponding lease liability is also recognized and measured at the present value of the lease payments/lease rental obligations that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.
- Subsequently, the "Right-of-use" Asset is carried at its cost less accumulated depreciation/amortization and accumulated impairment losses, if any. The lease liability is measured over the lease term by increasing the carrying amount to — reflect interest on lease liability and reducing the carrying amount to reflect the lease payments made during the period and is included in borrowings or other financial liabilities as appropriate.
- The carrying amount of lease liability will be remeasured/reassessed on modifications in lease agreement or revision in-substance fixed lease payments of a lease (if any) along with the adjustment for the same in the "Right-of-use" Asset.
- Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.
- "Right-of-use" Asset shall also be fully depreciated/amortized over the period of lease as per the lease agreement.
- Lease payments, associated with short-term leases or leases for which the underlying asset is of low value, are charged to the profit or loss as an expense on a straight-line basis over the lease term.

Further PSTCL as lessee (for the lease contract agreements already made and classified as operating lease before 01.04.2019) will apply this new standard in accordance with the paragraph C5(b) of this new standard, from the date of initial application i.e. 01.04.2019 (being transition date) and the lessee (PSTCL) shall not restate comparative information of these leases.

2.5 - Depreciation and Amortization:

The following paragraph is replaced under Significant Accounting Policy no. 2.5- "Depreciation and Amortization" in respect of Leasehold Assets:

Leasehold assets (including "Right-of-use" (ROU) Assets) are depreciated/amortized over the period of lease, including the optional period of lease, as per terms of lease agreements.

2.12 - Revenue Recognition:

The following paragraph is replaced/inserted under Significant Accounting Policy no. 2.12- "Revenue Recognition" in respect of Late/Delayed Payment Surcharges (DPS):

- **Late/Delayed Payment Surcharges (DPS) on Transmission Charges is accounted for on accrual basis, where clause for levy of such type of surcharges (DPS) exists in Transmission/other agreements.**
- **Other Late payment surcharges, liquidated damages/warranty claims and Interest on advances to suppliers are accounted for on actual receipt basis.**

2.1(ii) - Basis of Measurement:

The Accounting Policy no. 2.1(ii) - "Basis of Measurement" is replaced as under:

The financial statements are prepared on the accrual basis of accounting under Historical cost convention except specifically mentioned in relevant accounting policies.

Changes in Accounting Procedure related to Leases (i.e. Assets held under Lease) from FY 2019-20 onwards:

This new standard introduced a single lease accounting model by eliminating the earlier classification of finance lease and operating lease for lessees. Now, a lessee is required to recognize a lease as lease liability with corresponding "Right-of-use" asset in its Balance Sheet.

PSTCL as lessee, will recognize lease liability with corresponding "Right-of-use" asset in its Balance Sheet for the existing/future leases. PSTCL as lessee (for the lease contract agreements already made and classified as operating lease before 01.04.2019 in case of 5 no. Lease Agreements of Land of 400 KV Sub-stations) will apply this new standard by electing the option given at paragraph C5(b) of this new standard, from the the date of initial application i.e. 01.04.2019 (being transition date) and the lessee shall not restate comparative information of these leases.

The following accounting entries shall be passed:

(A) For the New Long Term Leases to be executed on or after 01.04.2019:

Sr. No.	Event/Transaction	Debit	Credit
1	At the commencement of Long Term Lease: Recognition of Right-of-use (ROU) Asset i.e. Leasehold Asset under PPE (i.e. Fixed Asset) & Corresponding Lease Liability (on the date of acquiring control over the asset e.g. date of taking possession by PSTCL in case of	Right-of-use (ROU) Asset - Land [GH-10.102 - already existing GH now renamed]	Lease Liabilities - Land (GH-52.601) (newly created Account Code) Note: Liability be recognised at present value

	Land). Note: Present value of lease payments/lease rental obligations that are not paid at that date shall be calculated by discounting all lease payments/lease rental obligations to be paid during the lease period using the interest rate i.e. incremental borrowing rate (rate to be taken from the office of AO/Loan & Banking)		
2	When initial Direct cost is incurred on Land held under Lease [i.e. Right-of-use (ROU) Asset]	Right-of-use (ROU) Asset - Land [GH –10.102 - already existing GH now renamed]	Bank Account (GH – 24)
3	At the time of payment of Lease rentals	Lease Liabilities – for Leasehold Land (GH-52.601) (newly created Account Code)	Bank Account (GH – 24)
4	At the year end: (a) If Lease payments become due in the beginning of the year: Finance Cost (Interest on Lease Liability) (b) If Lease payments become due during the year Finance Cost (Interest on Lease Liability) (For the period from the date of Lease Agreement/payment to the end of Financial year	Interest on Lease Liabilities (GH-78.859) (newly created Account Code) Interest on Lease Liabilities (GH-78.859) (newly created Account Code)	Lease Liabilities – for Leasehold Land (GH-52.601) (newly created Account Code) Interest Accrued but not due on Lease Liabilities- Land (GH-46.751)
Note: In the next/subsequent years the following entry be passed to clear the Interest accrued but not due, interest provided at the year end as per 4(b):			
	On the due date of Lease rentals	Interest Accrued but not due on Lease Liabilities- Land (GH-46.751) (With the amount as per provision already created as per Sr. No. 4(b) in previous year) Interest on Lease Liabilities (GH-78.859) (newly created Account Code)(With the amount of Interest due for the period from beginning of Financial Year to the date of payment becomes due)	Lease Liabilities – for Leasehold Land (GH-52.601) (newly created Account Code)
5	At the year end: Amortization/Depreciation of Right-of-use (ROU) Asset - Land	Amortization/Depreciation of Right-of-use (ROU) Asset - Land (GH –77.110)] (already existing GH now renamed)	Accumulated Amortization/Depreciation of Right-of-use (ROU) Asset - Land (GH – 12.102)] (already existing GH now renamed)

(B) For existing Long Term Leases (previously classified as Operating Lease upto 31.03.2019):

Besides the above entries (to be carried out for New Long term leases), the following additional entries shall be carried out for existing 3 no. Long Term Leases during FY 2019-20 only due to transition (the payment of which becomes due during the FY 2019-20 instead of at the beginning i.e. 01.04.2019):

Sr. No.	Event/Transaction	Debit	Credit
1	For adjustment of Prepaid Lease Rentals appearing as on 01.04.2019 (relating to leases where payment becomes due/paid during the year)	Right-of-use (ROU) Asset - Land [GH-10.102 - already existing GH now renamed)	Prepaid Expenses (GH-28.820)
2	At the time of payment of Lease rentals becomes due during FY 2019-20 only (for the lease liabilities recognised first time on the transition date-Interest due for the period from 01.04.2019 to the date on which payment becomes due during FY 2019-20)	Interest on Lease Liabilities (GH-78.859) (newly created Account Code)	Lease Liabilities – for Leasehold Land (GH-52.601) (newly created Account Code)

Notes:

1. The carrying amount of lease liability will be remeasured/reassessed on modifications in lease agreement or revision in-substance fixed lease payments of a lease (if any) along with the adjustment for the same in the "Right-of-use" Asset.
2. For lease payments, associated with short-term leases or leases for which the underlying asset is of low value, are charged to the profit or loss as an expense on a straight-line basis over the lease term.
3. A lease that, at the commencement date, has a lease term of 12 months or less is a short term lease. A lease that contains a purchase option is not a short-term lease.
4. a) An underlying asset can be of low value only if:
 - (i) the lessee can benefit from use of the underlying asset on its own or together with other resources that are readily available to the lessee; and
 - (ii) the underlying asset is not highly dependent on, or highly interrelated with, other assets.
- b) A lease of an underlying asset does not qualify as a lease of a low-value asset if the nature of the asset is such that, when new, the asset is typically not of low value. For example, leases of cars would not qualify as leases of low-value assets because a new car would typically not be of low value.
- c) If a lessee subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset.
- d) Examples of low-value underlying assets can include tablet and personal computers, small items of office furniture and telephones.

5. For the Leases already existing as on 01.04.2019 and previously classified as operating lease (i.e. upto 31.03.2019):

- (a) For the existing 5 no. Land under Lease existing as on 01.04.2019 (i.e. date of initial application/Transition date) for which the Lease agreements were made before 01.04.2019, the value of Right of Use (ROU) Asset as well as Lease Liability (for passing entry at Sr. No. 1 in the table) be calculated for the remaining lease period as on 01.04.2019 (i.e. from initial application/transition date) not for the total lease period to follow the provisions of Paragraph C5(b) of Ind AS 116- Leases.
- (b) The value of Right of Use (ROU) Asset of these existing Lease Agreements should also be adjusted with the amount of Prepaid lease rentals already recognised i.e. standing in the books against these leases (i.e. for 3 leases out of 5 for which payment of lease liability becomes due during the year i.e. not at beginning of FY 2019-20 i.e. 01.04.2019) (as per entry incorporated at Sr. No. 1 of Table B).

- (c) No adjustment of Initial Direct cost already incurred for existing agreements as on 01.04.2019 is required to be made i.e. the entry at Sr. No. 2 of the Table (A) is not required for these agreements.
- (d) The incremental borrowing rate (obtained from AO/Loan & Banking) as on 01.04.2019 was 10.75% p.a. which should be applied for calculating the present value of existing 5 no. Long term leases executed for Land (upto 31.03.2019) on the transition date i.e. 01.04.2019.

To implement the above instructions, the following new account codes are added/renamed in the booklet 'Chart of Accounts' (Commercial Accounting System, Vol.-1 Part-1:

Account Code	Existing Nomenclature of Account Head	Renamed Nomenclature of Account Head
10.102	Land held under Lease	Right-of-use (ROU) Asset - Land
12.102	Land held under Lease	Accumulated Amortization/Depreciation of Right-of-use (ROU) Asset - Land
46.7 Accrued/Unclaimed Amounts relating to Borrowings/Liabilities		
Account Code	Account Head	
46.751	Interest Accrued but not due on Lease Liabilities- Land	
52.6 Lease Liabilities against Leasehold Assets		
Account Code	Account Head	
52.601	Lease Liabilities – for Right-of-use (ROU)- Land	
Account Code	Existing Nomenclature of Account Head	Renamed Nomenclature of Account Head
77.110	Amortization of leasehold assets	Amortization/Depreciation of Right-of-use (ROU) Asset - Land
78.8 Other Interest & Finance Charges		
Account Code	Account Head	
78.859	Interest on Lease Liabilities (GH-78.859)	

This issues with the approval of Director/F&C, PSTCL, Patiala.

Harminder Singh
Accounts Officer/A&R,
PSTCL, Patiala.

Endst. No. 1366- 1408/CFO/A&R-20

Dated: 23.07.2020

Copy of the above is forwarded to the following for information and further necessary action please:

1. Chief Engineer/TS/ P&M/ SLDC/HIS&D, under PSTCL.
2. CAO/F&A, PSTCL, Patiala.
3. Company Secretary, PSTCL, Patiala.
4. All Dy.CEs/SEs under PSTCL.
5. All Dy. CAOs/Dy. CAs /Dy. FAs under PSTCL.
6. All Addl.SEs/Sr.Xens/AOs under PSTCL (except DDOs).
7. RAO, PSTCL, Patiala.

Harminder Singh
Accounts Officer/A&R,
PSTCL, Patiala.

CC:

Sr. PS to Director/F&C, PSTCL, Patiala for kind information of Director, please.