LEARNING OUTCOMES

After studying this unit, you will be able to:

- Examine the requirement for developing accounting policies relating to recognition, measurement, impairment and derecognition of regulatory deferral account balances
- Evaluate the circumstances which permits change in accounting policies
- Understand the change in the presentation requirement compared to previous GAAP
- Comply with the disclosure requirements relating to regulatory deferral account balances.
Identify and explain the amounts recognised

Help users of the financial statements to understand the amount, timing and uncertainty of future cash flows

Primarily related to presentation

Conducts rate-regulated activities

Recognised amounts that qualify as regulatory deferral account balances in its financial statements

An entity is permitted to apply the requirements of Ind AS 114 in its first Ind AS financial statements
2.1 OBJECTIVE

The objective of Ind AS 114 is to specify the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation.

In meeting this objective, Ind AS 114 requires:

(a) limited changes to the accounting policies that were applied in accordance with previous generally accepted accounting principles (previous GAAP) for regulatory deferral account balances, which are primarily related to the presentation of these accounts; and

(b) disclosures that:

(i) identify and explain the amounts recognised in the entity’s financial statements that arise from rate regulation; and

(ii) help users of the financial statements to understand the amount, timing and uncertainty of future cash flows from any regulatory deferral account balances that are recognised.

The requirements of Ind AS 114 permit an entity within its scope to continue to account for regulatory deferral account balances in its financial statements in accordance with its previous GAAP when it adopts Ind AS, subject to the limited changes referred to in the above paragraph.

In addition, Ind AS 114 provides some exceptions to, or exemptions from, the requirements of other Ind AS. All specified requirements for reporting regulatory deferral account balances, and any exceptions to, or exemptions from, the requirements of other Ind AS that are related to those balances, are contained within Ind AS 114 (instead of within those other Ind AS).

2.2 SCOPE

An entity is permitted to apply the requirements of Ind AS 114 in its first Ind AS financial statements if and only if it:
(a) conducts rate-regulated activities; and
(b) recognised amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP.

An entity should apply the requirements of Ind AS 114 in its financial statements for subsequent periods if and only if, in its first Ind AS financial statements, it recognised regulatory deferral account balances by electing to apply the requirements of Ind AS 114.

Ind AS 114 does not address other aspects of accounting by entities that are engaged in rate regulated activities. By applying the requirements in Ind AS 114, any amounts that are permitted or required to be recognised as assets or liabilities in accordance with other Ind AS should not be included within the amounts classified as regulatory deferral account balances.

An entity that is within the scope of, and that elects to apply, Ind AS 114 should apply all of its requirements to all regulatory deferral account balances that arise from all of the entity’s rate-regulated activities.

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1 An entity subject to rate regulation coming into existence after Ind AS coming into force or an entity whose activities become subject to rate regulation as defined in Ind AS 114 subsequent to preparation and presentation of its first Ind AS financial statements should be entitled to apply the requirements of the previous GAAP in respect of its such rate regulated activities.
## 2.3 DEFINITIONS

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
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<tbody>
<tr>
<td>First Ind AS financial statements</td>
<td>The first annual financial statements in which an entity adopts Ind AS, by an explicit and unreserved statement of compliance with Ind AS.</td>
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<tr>
<td>First-time adopter</td>
<td>An entity that presents its first Ind AS financial statements.</td>
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</table>
| Previous GAAP                              | The basis of accounting that a first-time adopter used immediately before adopting Ind AS for its reporting requirements in India. For instance, for companies preparing their financial statements in accordance with the existing Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 should consider those financial statements as previous GAAP financial statements.  
**Note:** Guidance Note on Accounting for the Rate Regulated Activities, issued by ICAI should be considered to be the previous GAAP. |
| Rate-regulated activities                  | An entity’s activities that are subject to rate regulation.                                                                                                                                                                                                                                                                                  |
|                                           | Historically, rate regulation applied to all activities of an entity. However, with acquisitions, diversification and deregulation, rate regulation may now apply to only a portion of an entity’s activities, resulting in it having both regulated and non-regulated activities. Ind AS 114 applies only to the rate-regulated activities that are subject to statutory or regulatory restrictions through the actions of a rate regulator, regardless of the type of entity or the industry to which it belongs.  
An entity should not apply Ind AS 114 to activities that are self-regulated, i.e., activities that are not subject to a pricing framework that is overseen and/or approved by a rate regulator. |
| Rate regulation                           | ‘Cost of Service Regulation’ as defined in the Guidance Note on Accounting for Rate Regulated Activities.  
In accordance with the Guidance Note, cost of service regulation is a form of regulation for setting an entity’s prices (rates) in which there is a cause-and-effect relationship between the entity’s specific costs and its revenues. |
| Rate regulator                            | ‘Regulator’ as defined in the Guidance Note on Accounting for Rate Regulated Activities.  
In accordance with the Guidance Note, a regulator is an authorised body
empowered by statute or by any government or any authorised agency of a government to set rates that binds an entity’s customers.

<table>
<thead>
<tr>
<th>Regulatory deferral account balance</th>
<th>A ‘Regulatory Asset’ or a ‘Regulatory Liability’ as defined in the Guidance Note on Accounting for Rate Regulated Activities.</th>
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<tbody>
<tr>
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<td>In accordance with the Guidance Note:</td>
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<td></td>
<td>• A regulatory asset is an entity’s right to recover fixed or determinable amounts of money towards incurred costs as a result of the actual or expected actions of its regulator under the applicable regulatory framework.</td>
</tr>
<tr>
<td></td>
<td>• A regulatory liability is an entity’s obligation to refund or adjust fixed or determinable amounts of money as a result of actual or expected action of its regulator under the applicable regulatory framework.</td>
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2.4 RECOGNITION, MEASUREMENT, IMPAIRMENT AND DERECOGNITION

2.4.1 Temporary exemption from Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors

An entity that has rate-regulated activities and that is within the scope of, and elects to apply, Ind AS 114 should apply the following guidance under Ind AS 8 when developing its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances:

• In the absence of an Ind AS that specifically applies to a transaction, other event or condition, management should use its judgement in developing and applying an accounting policy that results in information that is:

  (a) relevant to the economic decision-making needs of users; and

  (b) reliable, in that the financial statements:

     (i) represent faithfully the financial position, financial performance and cash flows of the entity

     (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form

     (iii) are neutral, i.e., free from bias

     (iv) are prudent
(v) are complete in all material respects

- In making the judgement, management should refer to, and consider the applicability of, the following sources in descending order:
  
  (a) the requirements in Ind AS dealing with similar and related issues; and
  
  (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework.

- Management may also first consider the most recent pronouncements of International Accounting Standards Board (IASB) and in absence thereof those of the other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources referred above.

From the above, it can be seen that Ind AS 8 specify sources of requirements and guidance that management is required or permitted to consider in developing an accounting policy for an item, if no relevant Ind AS applies specifically to that item. Ind AS 114 exempts an entity from applying the above guidance under Ind AS 8 to its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances. Consequently, entities that recognise regulatory deferral account balances, either as separate items or as part of the carrying value of other assets and liabilities, in accordance with previous GAAP, are permitted to continue to recognise those balances in accordance with Ind AS 114, subject to any presentation changes required by Ind AS 114.

**2.4.2 Continuation of existing accounting policies**

On initial application of Ind AS 114, an entity should continue to apply previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances, except for any changes permitted by Ind AS 114 (discussed below). However, the presentation of such amounts should comply with the presentation requirements of Ind AS 114, which may require changes to the entity’s previous GAAP presentation policies.

An entity should apply the policies established in accordance with above paragraph consistently in subsequent periods, except for any permitted changes in accounting policies (discussed below).

For the purposes of Ind AS 114, a regulatory deferral account balance is defined as the balance of any expense (or income) account that would not be recognised as an asset or a liability in accordance with other Ind AS, but that qualifies for deferral because it is included, or is expected to be included, by the rate regulator in establishing the rate(s) that can be charged to customers. Some items of expense (income) may be outside the regulated rate(s) because, for example, the amounts are not expected to be accepted by the rate regulator or because they are
not within the scope of the rate regulation. Consequently, such an item is recognised as income or expense as incurred, unless another Ind AS permits or requires it to be included in the carrying amount of an asset or liability.

In some cases, other Ind AS explicitly prohibit an entity from recognising, in the balance sheet, regulatory deferral account balances that might be recognised, either separately or included within other line items such as property, plant and equipment in accordance with previous GAAP accounting policies. However, an entity that elects to apply Ind AS 114 in its first Ind AS financial statements applies the exemption under Ind AS 8 (specified above) in order to continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment, and derecognition of regulatory deferral account balances. Such accounting policies may include, for example, the following practices:

(a) recognising a regulatory deferral account debit balance when the entity has the right, as a result of the actual or expected actions of the rate regulator, to increase rates in future periods in order to recover its allowable costs (i.e., the costs for which the regulated rate(s) is intended to provide recovery)

(b) recognising, as a regulatory deferral account debit or credit balance, an amount that is equivalent to any loss or gain on the disposal or retirement of both items of property, plant and equipment and of intangible assets, which is expected to be recovered or reversed through future rates

(c) recognising a regulatory deferral account credit balance when the entity is required, as a result of the actual or expected actions of the rate regulator, to decrease rates in future periods in order to reverse over-recoveries of allowable costs (i.e., amounts in excess of the recoverable amount specified by the rate regulator); and

(d) measuring regulatory deferral account balances on an undiscounted basis or on a discounted basis that uses an interest or discount rate specified by the rate regulator.

The following are examples of the types of costs that rate regulators might allow in rate-setting decisions and that an entity might, therefore, recognise in regulatory deferral account balances:

(a) volume or purchase price variances

(b) costs of approved ‘green energy’ initiatives (in excess of amounts that are capitalised as part of the cost of property, plant and equipment in accordance with Ind AS 16, Property, Plant and Equipment)

(c) non-directly-attributable overhead costs that are treated as capital costs for rate regulation purposes (but are not permitted, in accordance with Ind AS 16, to be included in the cost of an item of property, plant and equipment)

(d) project cancellation costs

(e) storm damage costs
(f) deemed interest (including amounts allowed for funds that are used during construction that provide the entity with a return on the owner’s equity capital as well as borrowings)

Regulatory deferral account balances usually represent timing differences between the recognition of items of income or expenses for regulatory purposes and the recognition of those items for financial reporting purposes. When an entity changes an accounting policy on the first-time adoption of Ind AS or on the initial application of a new or revised Ind AS, new or revised timing differences may arise that create new or revised regulatory deferral account balances. The prohibition in Ind AS 114 that prevents an entity from changing its accounting policy in order to start to recognise regulatory deferral account balances does not prohibit the recognition of the new or revised regulatory deferral account balances that are created because of other changes in accounting policies required by Ind AS. This is because the recognition of regulatory deferral account balances for such timing differences would be consistent with the existing recognition policy and would not represent the introduction of a new accounting policy. Similarly, Ind AS 114 does not prohibit the recognition of regulatory deferral account balances arising from timing differences that did not exist immediately prior to the date of transition to Ind AS but are consistent with the entity’s existing accounting policies (for example, storm damage costs).

Example:

Entity might have rate-regulated activities in a foreign country for which the transactions and regulatory deferral account balances are denominated in a currency that is not the functional currency of the reporting entity.

The regulatory deferral account balances and the movements in those balances are translated by applying IAS 21.

Illustration 1: On Determining the Regulatory deferral account balances to be recognised on Initial application of Ind AS

Entity A is a gas company that follows Indian GAAP in the preparation of its financial statements. In order to reduce volatility in rates charged to customers, the regulator in Country X requires Entity A to recover the differences between actual and estimated costs over time.

Under Indian GAAP, the deferred gas costs meet the asset recognition criteria and are presented as “Other assets” on Entity A’s balance sheet as at 31st March 20X1. There are no other assets included in this line item on the balance sheet aside from these deferred costs.

The rate regulator permitted Entity A to recover its gas supply costs on the basis of a one-for-one pass through to customers. It also required the entity to amortise any net over or under-recovery of gas costs on a straight-line basis over three years.

Entity A decided to adopt Ind AS in its 20X3 financial statements. How should the existing deferral account balance be treated under Ind AS 114?
Solution

On the date of adoption of Ind AS (1st April 20X1), Entity A has a carrying amount of 1,17,000 presented as Other assets and deferred costs on its balance sheet, which relates to the net under-recovery of gas costs to be deferred over the next three years.

Entity A has assessed that these deferred costs do not meet the requirements to be recognised as assets under IFRS.

Consequently, the regulatory deferral account balances to be recognised under Ind AS 114 amount to 1,17,000, which is the difference between the deferred costs capitalised and recognised under Indian GAAP and what would have been recognised under Ind AS without the adoption of Ind AS 114 (i.e., Nil).

Amortisation expense of 39,000 (1,17,000/3 years) will be recognised annually during the three year recovery period.

2.4.2.1 Application of Ind AS 36 ‘Impairment of Assets’

Ind AS 114 requires an entity to continue to apply its previous GAAP accounting policies for the identification, recognition, measurement and reversal of any impairment of its recognised regulatory deferral account balances.

Consequently, Ind AS 36 does not apply to the separate regulatory deferral account balances recognised.

However, Ind AS 36 might require an entity to perform an impairment test on a cash-generating unit (CGU) that includes regulatory deferral account balances. This test might be required because the CGU contains goodwill, or because one or more of the impairment indicators described in Ind AS 36 have been identified relating to the CGU. In such situations, Ind AS 36 contain requirements for identifying the recoverable amount and the carrying amount of a CGU. An entity should apply those requirements to decide whether any of the regulatory deferral account balances recognised are included in the carrying amount of the CGU for the purpose of the impairment test. The remaining requirements of Ind AS 36 should then be applied to any impairment loss that is recognised as a result of this test.

2.4.2.2 Application of Ind AS 103, Business Combinations

The core principle of Ind AS 103 is that an acquirer of a business recognises the assets acquired and the liabilities assumed at their acquisition-date fair values. Ind AS 103 provides limited exceptions to its recognition and measurement principles. Ind AS 114 requires an entity to continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances. Consequently, if an entity acquires a business, it should apply, in its consolidated financial statements, its existing accounting policies for the recognition and measurement of the acquiree’s regulatory deferral account balances at the date of acquisition. The acquiree’s regulatory deferral account balances
should be recognised in the consolidated financial statements of the acquirer in accordance with the acquirer’s policies, irrespective of whether the acquiree recognises those balances in its own financial statements.

2.4.2.3 Application of Ind AS 110, Consolidated Financial Statements and Ind AS 28, Investments in Associates and Joint Ventures

Ind 110 requires that a parent should prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. Ind AS 114 requires that an entity that is within the scope of, and elects to apply, Ind AS 114 should apply all of its requirements to all regulatory deferral account balances arising from all of the entity’s rate-regulated activities. Consequently, if a parent recognises regulatory deferral account balances in its consolidated financial statements in accordance with Ind AS 114, it should apply the same accounting policies to the regulatory deferral account balances arising in all of its subsidiaries. This should apply irrespective of whether the subsidiaries recognise those balances in their own financial statements.

Similarly, Ind AS 28 require that, in applying the equity method, an entity’s financial statements should be prepared using uniform accounting policies for like transactions and events in similar circumstances. Consequently, adjustments should be made to make the associate’s or joint venture’s accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances conform to those of the investing entity in applying the equity method.

2.4.3 Changes in accounting policies

An entity should not change its accounting policies in order to start to recognise regulatory deferral account balances. An entity may only change its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances if the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. An entity should judge relevance and reliability using the criteria in Ind AS 8 (discussed above).

To justify changing its accounting policies for regulatory deferral account balances, an entity should demonstrate that the change brings its financial statements closer to meeting the criteria in Ind AS 8 (discussed above). However, the change does not need to achieve full compliance with those criteria for the recognition, measurement, impairment and derecognition of regulatory deferral account balances.

Changes in accounting policies discussed above apply both to changes made on initial application of Ind AS 114 and to changes made in subsequent reporting periods.
2.4.4 Interaction with other Ind AS

Any specific exception, exemption or additional requirements related to the interaction of Ind AS 114 with other Ind AS are contained within Ind AS 114. In the absence of any such exception, exemption or additional requirements, other Ind AS should apply to regulatory deferral account balances in the same way as they apply to assets, liabilities, income and expenses that are recognised in accordance with other Ind AS.

In some situations, another Ind AS might need to be applied to a regulatory deferral account balance that has been measured in accordance with an entity’s existing accounting policies in order to reflect that balance appropriately in the financial statements. For example, the entity might have rate-regulated activities in a foreign country for which the transactions and regulatory deferral account balances are denominated in a currency that is not the functional currency of the reporting entity. The regulatory deferral account balances and the movements in those balances are translated by applying Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*.

2.4.4.1 Application of Ind AS 10, Events after the Reporting Period

An entity may need to use estimates and assumptions in the recognition and measurement of its regulatory deferral account balances. For events that occur between the end of the reporting period and the date when the financial statements are authorised for issue, the entity should apply Ind AS 10 to identify whether those estimates and assumptions should be adjusted to reflect those events.

2.5 PRESENTATION

2.5.1 Changes in presentation

Ind AS 114 introduces presentation requirements for regulatory deferral account balances that are recognised in accordance with existing accounting policies. When Ind AS 114 is applied, the regulatory deferral account balances are recognised in the balance sheet in addition to the assets and liabilities that are recognised in accordance with other Ind AS. These presentation requirements separate the impact of recognising regulatory deferral account balances from the financial reporting requirements of other Ind AS.

In addition to the items that are required to be presented in the balance sheet and in the statement of profit and loss in accordance with Ind AS 1, *Presentation of Financial Statements*, an entity applying Ind AS 114 should present all regulatory deferral account balances and the movements in those balances as below:

2.5.2 Classification of regulatory deferral account balances

An entity should present separate line items in the balance sheet for:
(a) the total of all regulatory deferral account debit balances; and

(b) the total of all regulatory deferral account credit balances.

When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet, it should not classify the totals of regulatory deferral account balances as current or non-current. Instead, the separate line items should be distinguished from the assets and liabilities that are presented in accordance with other Ind AS by the use of sub-totals, which are drawn before the regulatory deferral account balances are presented.

### 2.5.3 Classification of movements in regulatory deferral account balances

An entity should present, in the other comprehensive income section of the statement of profit and loss, the net movement in all regulatory deferral account balances for the reporting period that relate to items recognised in other comprehensive income. Separate line items should be used for the net movement related to items that, in accordance with other Ind AS:

(a) will not be reclassified subsequently to profit or loss; and

(b) will be reclassified subsequently to profit or loss when specific conditions are met.

An entity should present a separate line item in the profit or loss section of the statement of profit and loss, for the remaining net movement in all regulatory deferral account balances for the reporting period, excluding movements that are not reflected in profit or loss, such as amounts acquired. This separate line item should be distinguished from the income and expenses that are presented in accordance with other Standards by the use of a sub-total, which is drawn before the net movement in regulatory deferral account balances.

#### 2.5.3.1 Application of Ind AS 12, Income Taxes

When an entity recognises a deferred tax asset or a deferred tax liability as a result of recognising regulatory deferral account balances, the entity should present the resulting deferred tax asset (liability) and the related movement in that deferred tax asset (liability) with the related regulatory deferral account balances and movements in those balances, instead of within the total presented in accordance with Ind AS 12 *Income Taxes* for deferred tax assets (liabilities) and the tax expense (income).

Ind AS 12 requires, with certain limited exceptions, an entity to recognise a deferred tax liability and (subject to certain conditions) a deferred tax asset for all temporary differences. A rate-regulated entity should apply Ind AS 12 to all of its activities, including its rate-regulated activities, to identify the amount of income tax that is to be recognised.

In some rate-regulatory schemes, the rate regulator permits or requires an entity to increase its future rates in order to recover some or all of the entity’s income tax expense. In such
circumstances, this might result in the entity recognising a regulatory deferral account balance in the balance sheet related to income tax, in accordance with its existing accounting policies. The recognition of this regulatory deferral account balance that relates to income tax might itself create an additional temporary difference for which a further deferred tax amount would be recognised.

Notwithstanding the presentation and disclosure requirements of Ind AS 12, when an entity recognises a deferred tax asset or a deferred tax liability as a result of recognising regulatory deferral account balances, the entity should not include that deferred tax amount within the total deferred tax asset (liability) balances. Instead, the entity should present the deferred tax asset (liability) that arises as a result of recognising regulatory deferral account balances either:

(a) with the line items that are presented for the regulatory deferral account debit balances and credit balances; or

(b) as a separate line item alongside the related regulatory deferral account debit balances and credit balances.

Similarly, when an entity recognises the movement in a deferred tax asset (liability) that arises as a result of recognising regulatory deferral account balances, the entity should not include the movement in that deferred tax amount within the tax expense (income) line item that is presented in the statement of profit and loss in accordance with Ind AS 12. Instead, the entity should present the movement in the deferred tax asset (liability) that arises as a result of recognising regulatory deferral account balances either:

(a) with the line items that are presented in the statement of profit and loss for the movements in regulatory deferral account balances; or

(b) as a separate line item alongside the related line items that are presented in the statement of profit and loss for the movements in regulatory deferral account balances.

2.5.3.2 Application of Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations

When an entity presents a discontinued operation or a disposal group in accordance with Ind AS 105 Non-current Assets Held for Sale and Discontinued Operations, the entity should present any related regulatory deferral account balances and the net movement in those balances, as applicable, with the regulatory deferral account balances and movements in those balances, instead of within the disposal groups or discontinued operations.

Ind AS 114 requires an entity to continue to apply its previous accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances. Consequently, the measurement requirements of Ind AS 105 should not apply to the regulatory deferral account balances recognised.
Ind AS 105 requires a single amount to be presented for discontinued operations in the statement of profit and loss. When an entity that elects to apply Ind AS 114 presents a discontinued operation, it should not include the movement in regulatory deferral account balances that arose from the rate-regulated activities of the discontinued operation within the line items that are required by Ind AS 105. Instead, the entity should present the movement in regulatory deferral account balances that arose from the rate-regulated activities of the discontinued operation either:

(a) within the line item that is presented for movements in the regulatory deferral account balances related to profit or loss; or

(b) as a separate line item alongside the related line item that is presented for movements in the regulatory deferral account balances related to profit or loss.

Similarly, when an entity presents a disposal group, the entity should not include the total of the regulatory deferral account debit balances and credit balances that are part of the disposal group within the line items that are required by Ind AS 105. Instead, the entity should present the total of the regulatory deferral account debit balances and credit balances that are part of the disposal group either:

(a) within the line items that are presented for the regulatory deferral account debit balances and credit balances; or

(b) as separate line items alongside the other regulatory deferral account debit balances and credit balances.

If the entity chooses to include the regulatory deferral account balances and movements in those balances that are related to the disposal group or discontinued operation within the related regulated deferral account line items, it may be necessary to disclose them separately as part of the analysis of the regulatory deferral account line items.

2.5.3.3 Application of Ind AS 33, Earnings per Share

When an entity presents earnings per share in accordance with Ind AS 33 *Earnings per Share*, the entity should present additional basic and diluted earnings per share, which are calculated using the earnings amounts required by Ind AS 33 but excluding the movements in regulatory deferral account balances.

Ind AS 33 requires some entities to present, in the statement of profit and loss, basic and diluted earnings per share both for profit or loss from continuing operations and profit or loss that is attributable to the ordinary equity holders of the parent entity. In addition, Ind AS 33 requires an entity that reports a discontinued operation to disclose the basic and diluted amounts per share for the discontinued operation, either in the statement of profit or loss and other comprehensive income or in the notes.
For each earnings per share amount presented in accordance with Ind AS 33, an entity applying Ind AS 114 should present additional basic and diluted earnings per share amounts that are calculated in the same way, except that those amounts should exclude the net movement in the regulatory deferral account balances. Consistent with the requirement in Ind AS 33, an entity should present the earnings per share required by Ind AS 114 with equal prominence to the earnings per share required by Ind AS 33 for all periods presented.

2.6 DISCLOSURE

2.6.1 Objective

An entity that elects to apply Ind AS 114 should disclose information that enables users to assess:

(a) the nature of, and the risks associated with, the rate regulation that establishes the price(s) that the entity can charge customers for the goods or services it provides; and

(b) the effects of that rate regulation on its financial position, financial performance and cash flows.

If any of the disclosures set out below are not considered relevant to meet the above objective, they may be omitted from the financial statements. If the disclosures are insufficient to meet the above objective, an entity should disclose additional information that is necessary to meet that objective.

To meet the disclosure objective, an entity should consider all of the following:

(a) the level of detail that is necessary to satisfy the disclosure requirements;

(b) how much emphasis to place on each of the various requirements;

(c) how much aggregation or disaggregation to undertake; and

(d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

2.6.2 Explanation of activities subject to rate regulation

To help a user of the financial statements assess the nature of, and the risks associated with, the entity’s rate-regulated activities, an entity should, for each type of rate-regulated activity, disclose:

(a) a brief description of the nature and extent of the rate-regulated activity and the nature of the regulatory rate-setting process;
(b) the identity of the rate regulator(s). If the rate regulator is a related party (as defined in Ind AS 24, Related Party Disclosures), the entity should disclose that fact, together with an explanation of how it is related;

(c) how the future recovery of each class (i.e., each type of cost or income) of regulatory deferral account debit balance or reversal of each class of regulatory deferral account credit balance is affected by risks and uncertainty, for example:

(i) demand risk (for example, changes in consumer attitudes, the availability of alternative sources of supply or the level of competition);

(ii) regulatory risk (for example, the submission or approval of a rate-setting application or the entity’s assessment of the expected future regulatory actions); and

(iii) other risks (for example, currency or other market risks).

The above disclosures should be given in the financial statements either directly in the notes or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. If the information is not included in the financial statements directly or incorporated by cross-reference, the financial statements are incomplete.

2.6.3 Explanation of recognised amounts

An entity should disclose the basis on which regulatory deferral account balances are recognised and derecognised, and how they are measured initially and subsequently, including how regulatory deferral account balances are assessed for recoverability and how any impairment loss is allocated.

For each type of rate-regulated activity, an entity should disclose the following information for each class of regulatory deferral account balance:

(a) a reconciliation of the carrying amount at the beginning and the end of the period, in a table unless another format is more appropriate. The entity should apply judgement in deciding the level of detail necessary, but the following components would usually be relevant:

(i) the amounts that have been recognised in the current period in the balance sheet as regulatory deferral account balances;

(ii) the amounts that have been recognised in the statement of profit and loss relating to balances that have been recovered (sometimes described as amortised) or reversed in the current period; and

(iii) other amounts, separately identified, that affected the regulatory deferral account balances, such as impairments, items acquired or assumed in a business
combination, items disposed of, or the effects of changes in foreign exchange rates or
discount rates;

(b) the rate of return or discount rate (including a zero rate or a range of rates, when
applicable) used to reflect the time value of money that is applicable to each class of
regulatory deferral account balance; and

(c) the remaining periods over which the entity expects to recover (or amortise) the carrying
amount of each class of regulatory deferral account debit balance or to reverse each class
of regulatory deferral account credit balance.

When rate regulation affects the amount and timing of an entity’s income tax expense (income),
the entity should disclose the impact of the rate regulation on the amounts of current and
deferred tax recognised. In addition, the entity should separately disclose any regulatory deferral
account balance that relates to taxation and the related movement in that balance.

2.6.3.1 Application of Ind AS 112 Disclosure of Interests in Other Entities

When an entity provides disclosures in accordance with Ind AS 112, Disclosure of Interests in
Other Entities for an interest in a subsidiary, associate or joint venture that has rate-regulated
activities and for which regulatory deferral account balances are recognised in accordance with
Ind AS 114, the entity should disclose the amounts that are included for the regulatory deferral
account debit and credit balances and the net movement in those balances for the interests
disclosed.

Ind AS 112 requires an entity to disclose, for each of its subsidiaries that have non-controlling
interests that are material to the reporting entity, the profit or loss that was allocated to non-
controlling interests of the subsidiary during the reporting period. An entity that recognises
regulatory deferral account balances in accordance with Ind AS 114 should disclose the net
movement in regulatory deferral account balances that is included within the amounts that are
required to be disclosed by Ind AS 112.

Ind AS 112 also requires an entity to disclose, for each of its subsidiaries that have non-
controlling interests that are material to the reporting entity, summarised financial information
about the subsidiary. Similarly, Ind AS 112 requires an entity to disclose, for each joint venture
and associate that is material to the reporting entity, summarised financial information. Also, it
specifies the summary financial information that an entity is required to disclose for all other
associates and joint ventures that are not individually material. In addition to the information
specified above in Ind AS 112, an entity that recognises regulatory deferral account balances in
accordance with Ind AS 114 should also disclose the total regulatory deferral account debit
balance, the total regulatory deferral account credit balance and the net movements in those
balances, split between amounts recognised in profit or loss and amounts recognised as other
comprehensive income, for each entity for which those Ind AS 112 disclosures are required.
Ind AS 112 specifies the information that an entity is required to disclose when the entity recognises a gain or loss on losing control of a subsidiary, calculated in accordance with Ind AS 110. In addition to such information, an entity that elects to apply Ind AS 114 should disclose the portion of that gain or loss that is attributable to derecognising regulatory deferral account balances in the former subsidiary at the date when control is lost.

### 2.6.4 Regulatory deferral account balance being no longer fully recoverable or reversible

When an entity concludes that a regulatory deferral account balance is no longer fully recoverable or reversible, it should disclose that fact, the reason why it is not recoverable or reversible and the amount by which the regulatory deferral account balance has been reduced.

### 2.7 SIGNIFICANT DIFFERENCES IN IND AS 114 AND INDIAN GAAP

**Note:** Guidance Note on Accounting for the Rate Regulated Activities, issued by ICAI should be considered to be the Indian GAAP.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Particulars</th>
<th>Ind AS 114</th>
<th>Indian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Presentation of regulatory deferral account balances in balance sheet</td>
<td>Regulatory deferral account balances are not classified as current and non-current, but are separately disclosed using subtotals</td>
<td>Regulatory deferral account balances are classified as current and non-current, as the case may be</td>
</tr>
<tr>
<td>2.</td>
<td>Presentation of movement in regulatory deferral account balances in statement of profit and loss</td>
<td>Separate line item distinguished from income and expenses that are presented in accordance with other Ind AS by use of a subtotal</td>
<td>Separate line item under tax expense for the deferred tax expense/saving related to regulatory account balances</td>
</tr>
</tbody>
</table>
Question
The rate regulator permitted A Ltd., an LNG supplier, to recover its gas supply costs on the basis of a one-for-one pass through to customers. On the date of transition to Ind AS, A Ltd. has a carrying amount of INR 3,00,000 presented as other assets and deferred costs on its Indian GAAP balance sheet, which relates to the net under-recovery of gas costs to be deferred over the next three years. A Ltd. has assessed that these deferred costs do not meet the requirements to be recognised as assets under Ind AS. How should the existing deferral account balance be treated under Ind AS 114?

Answer
The regulatory deferral account balances to be recognised under Ind AS 114 amounts to INR 3,00,000. This is the difference between the deferred costs capitalised and recognised under Indian GAAP and what would have been recognised under Ind AS without the adoption of Ind AS 114 (i.e., nil).

Amortisation expense of INR 1,00,000 (INR 3,00,000/ 3 years) will be recognised annually during the three year recovery period.