Query No. 13

Subject: Classification of 'Provision for doubtful debts no longer required written back' as 'Other Income' or 'Other Operating Revenue'.[1]

A. Facts of the Case

1. A company (hereinafter referred to as 'the Company') is a Miniratna Category-I Company incorporated under the erstwhile Companies Act, 1956 (now Companies Act, 2013). Pursuant to Initial Public Offer, equity shares of the Company are listed and traded on both Bombay Stock Exchange (BSE) Limited and National Stock Exchange (NSE) of India Limited. The core activity of the Company has been divided into two operational divisions, i.e. e-commerce and trading. The Company undertakes trading activities, disposal of ferrous and non-ferrous scrap, surplus stores, minerals, agri and forest produces, etc. mostly from public sector undertakings, government departments and leading private sector entities and other e-commerce services. The mode of disposal includes e-auction, e-tender, e-reverse auction etc. Besides, the Company also e-auctions coal from coal mining entities. Apart from these, the Company also provides e-procurement and other platform development and maintenance solution. The trading division handles domestic trade of mainly bulk industrial raw material. It looks after sourcing, purchase and sales of industrial raw materials like heavy melting scrap, low ash metallurgical coke, HR coil, crude oil, naphtha, coking coal, steam coal etc. for supply to Indian industries in steel, infrastructure, power sector, etc.

2. The source of revenue is currently the service charges income from its customers. Although operating in trading and e-commerce segment, currently, the Company is predominantly an e-commerce service provider.

3. The financial performance of last three years and nine months ending on 31.12.2023 is given below:

Figures in Rs. Crores

Particulars	2020-21	2021-22	2022-23	2023-24 (Nine months)
Revenue from operations	427.75	470.64	324.72	234.32
Profit before tax	114.68	220.04	313.48	216.63
Profit after tax	101.07	200.05	239.23	152.41

4. *Comptroller and Auditor General of India (CAG) query:*

Statement of Profit and Loss: Revenue from Operations (Note 23): Rs. 324.72 crore: Other Operating Revenues: Rs. 33.69 crore; Other Income (Note 24): Rs. 173.29 crore
The Company had made a provision of doubtful debts amounting to Rs. 94.89 crore in earlier year(s) against which it realised a sum of Rs. 18.23 crore from the customers during financial year 2022-23. The balance amount of Rs. 76.66 crore was considered as 'Bad debt' and charged to Profit and Loss (P&L) Account and entire provision for doubtful debts amounting to Rs. 94.89 crore was credited to P & L Account under the head 'Other Income'. Since trade receivable is the amount to be realised from customer in the normal course of operation, the writing back of provision against trade receivable should also be shown under 'Other

[1] Opinion finalised by the Committee on 11.7.2024.

operating revenues' instead of 'Other income'. Hence, this resulted in overstatement of 'Other income' and understatement of 'Other operating revenues' by Rs. 94.89 crore each.

5. *Management Reply:*

The term 'Other Operating Revenue' is not defined. This would include revenue arising from the Company's operating activities, i.e. either its principal or ancillary revenue generating activities, other than revenue arising from sale of product or rendering of services. In the instant case, although "the trade receivable is the amount to be realised from customer in the normal course of operation" but the provisions made against the bad and doubtful trade receivables and subsequent realisation thereof, if any, cannot be termed as a part of normal course of operation. Realisation of trade receivable and writing back of provision cannot be termed as similar activity.

It was also mentioned by the Company that the format of Statement of Profit and Loss as prescribed by Schedule III of the Companies Act, 2013 (as amended as on date) though prescribes for revenue from operations but has not differentiated among the operating and non-operating expenses. It would further be appreciated that the operating income comprises of amount related to operations in a particular operating cycle, which in the instant case is limited to financial year 2022-23. Operating income including other operating income arises due to the operational activities during the operating cycle embraced within the financial year which is F.Y. 2022-23 in the given case. The amount as cited in the audit query pertains to the reversal of provisions created in the earlier financial year/operating cycle upon actual realisation of money in part (Rs. 18.23 crore) and balance written off as bad debt (Rs. 76.66 crore). No fresh provision has been made in F.Y. 2022-23. Furthermore, the figure of Rs. 76.66 crore is appearing on both sides of the Statement of Profit and Loss, i.e. income and expenditure having no effect on the profitability, thereby having neutral effect. For this, inclusion of the cited amount in the current year's operating cycle as 'Other Operating Income' will not reflect the true picture in the financial statements.

It is also submitted that the Company will review the matter in the financial year 2023-24, including obtaining an opinion from the Institute of Chartered Accountants of India (ICAI) and if required, will do the needful.

B. Query

6. In view of the above, the opinion is sought from the Expert Advisory Committee of the ICAI on whether 'Provision no longer required written back' can be classified as 'Other Income' or 'Other Operating Revenue'.

C. Points considered by the Committee

7. The Committee notes that the basic issue raised in the query relates to presentation and classification of 'Provision for doubtful debts no longer required written back' in the Statement of Profit and Loss. Therefore, the Committee has examined this issue only and has not examined any other issue that may arise from the Facts of the Case, such as, accounting for trade receivables including recognition, measurement and derecognition of receivables, appropriateness of accounting in earlier years, measurement of provision for bad debts or provision written back, manner of creation of provision for doubtful debts and timing of reversal of such provision, disclosures pertaining to impairment losses on financial assets viz., trade receivables under Ind AS 1, Ind AS 107 etc., accounting for income received in the form

of service charges, accounting for transactions with other companies, accounting for e-auction and e-tender activities, etc. Further, the Committee has examined the query only from accounting perspective and not from any other perspective. The Committee wishes to point out that the opinion expressed hereinafter is in the context of Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015 as amended from time to time.

8. At the outset, the Committee notes that the querist has used the nomenclature 'Provision for doubtful debts', which is not relevant under Ind AS scenario, as provision for doubtful debts is now termed as impairment loss on receivables or trade receivables (e.g., refer Ind AS 1 and Ind AS 109). Similarly, provision written back is termed as reversal of impairment loss. In this regard, the Committee also notes paragraph 7 of Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets' which states that while the "Standard defines provisions as liabilities…The term 'provision' is also used in the context of items such as … doubtful debts: these are adjustments to the carrying amounts of assets and are not addressed in this Standard". In other words, the term 'provisions' is used for liabilities and not for assets under Ind AS. Therefore, the Committee hereinafter uses the terms, 'impairment' and 'reversal of impairment'. With regard to impairment of receivables, the Committee notes the following requirements of Ind AS 115, 'Revenue from Contracts with Customers':

> "108 A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity would recognise a receivable if it has a present right to payment even though that amount may be subject to refund in the future. An entity shall account for a receivable in accordance with Ind AS 109. Upon initial recognition of a receivable from a contract with a customer, any difference between the measurement of the receivable in accordance with Ind AS 109 and the corresponding amount of revenue recognised shall be presented as an expense (for example, as an impairment loss)."

From the above, the Committee notes that as per the requirements of Ind AS 115, receivable including impairment thereof is to be accounted for in accordance with Ind AS 109. Further, as per Ind AS 109, an entity is required to recognise a loss allowance (i.e. impairment) based on forward-looking expected credit loss (ECL) model as per Section 5.5 thereof.

9. With regard to presentation of 'impairment loss' and any reversal thereof as well as the derecognition of financial assets measured at amortised cost, the Committee further notes the following paragraphs of Indian Accounting Standard (Ind AS) 1, 'Presentation of Financial Statements' and Ind AS 115:

> *Ind AS 1*
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> **"82 In addition to items required by other Ind ASs, the profit or loss section of the statement of profit and loss shall include line items that present the following amounts for the period:**
>
> **…**
>
> **(aa) gains and losses arising from the derecognition of financial assets measured at amortised cost;**

…

(ba) impairment losses (including reversals of impairment losses or gains) determined in accordance with Section 5.5 of Ind AS 109;

…"

Ind AS 115

"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) ...

(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."

From the above, the Committee notes that the impairment loss including reversals of impairment losses or gains, determined in accordance with Section 5.5 of Ind AS 109, should be presented separately on the face of the Statement of Profit or Loss. The Committee also notes that Part II of Division II of Schedule III to the Companies Act, 2013, prescribes the format of Statement of Profit and Loss applicable for companies adopting Ind ASs, which requires presentation of 'Impairment Losses' as a separate line item on the face of the Statement of Profit and Loss. Further, the Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013 (Revised January, 2022 Edition), issued by the ICAI also provides that separate line item should be included in the profit or loss section of the Statement of Profit and Loss to present the impairment losses (including impairment gains or reversals of impairment losses) determined as per Ind AS 109, Section 5.5, in line with paragraph 82 of Ind AS 1.

10. Considering the requirements reproduced/mentioned above, the Committee is of the view that reversal of impairment loss should be presented in the Statement of Profit and Loss under the line item 'Impairment Losses' under a separate head for impairment losses recognised on receivables recognised as per Ind AS 115. Therefore, in the extant case, the recovery of receivables (Rs. 18.23 crores), in respect of which an impairment loss was recognised in the financial statements earlier as per the requirements of the Standards and was adjusted in arriving at the carrying amount of receivables measured at amortised cost, would represent a reversal of impairment loss. Accordingly, the said reversal of impairment loss should be presented in the Statement of Profit and Loss under the line item 'Impairment Losses'. Thus, the question of presenting the same as 'other income' or 'other operating revenue' does not arise.

D. Opinion

11. On the basis of above, the Committee is of the opinion that reversal of impairment loss (viz., Rs. 18.23 crore) should be presented in the Statement of Profit and Loss under the line item 'Impairment Losses', as discussed in paragraph 10 above. Therefore, the question of presenting the aforesaid amount as 'other income' or 'other operating revenue' does not arise, as discussed in paragraph 10 above.

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