

**GASAB**

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**Government Investments in Equity  
Draft Exposure Draft**

**Issued by  
Government Accounting Standards Advisory Board**

## Request for comments

Government Accounting Standards Advisory Board (GASAB), constituted by the Comptroller and Auditor General of India, with the support of Government of India, to formulate and recommend Indian Government Accounting Standards, approved this Exposure Draft, '**Government Investment in Equity**' for publication. The proposals in this Exposure Draft may be modified in the final Standard in the light of comments received before being recommended by the Comptroller and Auditor General of India for notification by the President of India in the form of Indian Government Accounting Standard.

Please submit your comments so that they will be received by **February 17, 2009**. All comments will be considered a matter of public record.

Comments should be addressed to:

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Copies of this exposure draft may be downloaded free-of-charge from the GASAB website at <http://www.gasab.gov.in>

## Contents at a Glance

1.	Introduction	1
2.	Objective	1
3.	Scope	1
4.	Definitions	2
5.	Recognition	4
6.	Measurement and Valuation	4
7.	Disclosure	5
8.	Effective Date	8
9.	Format for disclosure	8
9.1	Financial Statements of the Union Government	
	A Statement of Investments made by the Union Government	9
	B Detailed Statement of Investments made by the Union Government	10
	C Additional Disclosures	11
9.2	Financial Statements of the State Government/Union Territory Government with Legislature	
	A Statement of Investments made by the State/Union Territory Government	12
	B Detailed Statement of Investments made by the State Government/Union Territory Government	13
	C Additional Disclosures	14

# **GOVERNMENT INVESTMENTS IN EQUITY**

*The standards, which have been set in bold italic type, should be read in the context of the explanatory paragraphs in this Standard, which are in plain type. The Indian Government Accounting Standards are not intended to apply to immaterial items.*

## **1. Introduction**

1.1 Investments are made by the Union and the State Governments in Statutory Corporations, Government Companies, other Joint Stock Companies, Co-operative Banks and Societies, and International Bodies by way of subscription to equity instruments of these entities.

1.2 Investments by the governments constitute a portion of capital outlay of the Governments and dividends received are part of non tax revenue.

1.3 Government investments are primarily in the Public Sector wherein the focus is not only on generating adequate return on investments but also to ensure rapid economic growth, balanced regional development, employment generation, and meeting strategic and infrastructural requirements.

## **2. Objective**

The objective of the Standard is to lay down the norms for Recognition, Measurement and Reporting in respect of Investments made by the Union Government, the State Governments and Governments of Union Territories with Legislatures in their respective Financial Statements to ensure complete, accurate, realistic and uniform accounting practices, and to ensure adequate disclosure on investments made by the Governments consistent with best international practices.

## **3. Scope**

**This Standard applies to entities which keep a record of investments made by the Government for incorporation and presentation in the Annual Financial Statements of the Government. This standard will apply only to government accounts being maintained on a cash basis. This standard applies to only instruments that are in the nature of equity of the investee entities and not to debt instruments like debentures, bonds, preference shares etc.**

**Financial Statements will not be considered as giving fair and complete picture of Investments unless they comply with these standards.**

## **4. Definitions**

**4.1 The following terms used in the Standard have meanings as specified here under, unless the context otherwise requires:**

**Accounting Authority** is the authority which prepares the Financial Statements of the Governments.

**Accounting Period** means the period covered by the Financial Statements.

**Bonus shares** are shares issued free of cost to the shareholders of a company, by capitalizing a part of the company's reserves.

**Cash Basis** of accounting is that wherein accounting transactions of an entity represent the actual cash receipts and disbursements during a financial year as distinguished from the amount due to or by the entity during the same period.

**Consolidated Fund of India** is the fund referred to in clause (1) Article 266 of the Constitution of India.

**Consolidated Fund of the State** is the fund referred to in clause (1) Article 266 of the Constitution of India.

**Debentures** are an instrument of debt executed by the company acknowledging its obligation to repay the sum at a specified rate and also carrying an interest.

**Equity** is the residual interest in the assets of the enterprise after deducting all its liabilities.

**Equity Instrument** is any contract that evidences a residual interest in the assets of an enterprise after deducting all of its liabilities.

**Equity shares** are all shares which are not preference shares.

**Financial statements** mean the Annual Finance Accounts of the respective Governments.

**Government** means the Union Government or any State Government or Government of any Union Territory with Legislature.

**Historical Cost** is the transaction value including incidental costs at the time of transaction

**Investee Entity** is an entity in whom an investment is sanctioned by the Government.

**Investee Group** consists of a group of investee entities of similar nature and characteristics.

**Investments** are financial assets created by the Governments by providing money, goods or services directly or indirectly to the investee entities. These financial assets are in the nature of equity of the investee entities.

**Major Heads** of account represent the functions of Government as per the 'List of Major and Minor Heads of Account of Union and States'.

**Minor Heads** of account represent various programmes undertaken by departments of Government to achieve the objectives of the function represented by the major head as per the 'List of Major and Minor Heads of Account of Union and States'.

**Net worth** is the total assets minus total outside liabilities

**Parliament** means the Parliament of India.

**Planning Commission** means the Central Planning Commission set up by the Government through a resolution in 1950.

**Preference shares** are shares which have the following two characteristics; (a) that as respects dividends they carry or will carry a preferential right to be paid a fixed amount or an amount calculated at a fixed rate. (b) that as respect capital, it carries or will carry, on winding up or repayments of capital, a preferential right to be repaid the amount of the capital paid-up or deemed to have been paid up.

**Sector** consists of a grouping of specific functions or services as per the ‘List of Major and Minor Heads of Account of Union and States’.

**Sub-Major Heads** of account represent the sub-functions of Government and are under the Major Heads and are as per the ‘List of Major and Minor Heads of Account of Union and States’.

## **5 Recognition**

**5.1** An investment shall be recognized by the disbursing entity as an asset from the date the money is actually disbursed and not from the date of sanction.

**5.2** Loans converted into equity shall be treated as investments from the date of conversion in as much that they shall lead to an increase in the investment amount from the date of conversion.

## **6 Measurement and Valuation**

**6.1** Historical Cost measurement shall be the basis for accounting and reporting on investments made by Governments

**6.2** The total amount of investments on the last date of a accounting period shall be the investments at the beginning of the period with additions and disinvestment/ sale of investments during the period.

**6.3** The method of initial measurement and valuation of investments in the Financial Statements of the Governments is to measure at historical cost of the investments.

**6.4** Subsequent to initial valuation too, Investments will be reflected in the Financial Statements at Historical cost.

## **7 Disclosure**

**7.1** The Financial Statements of the Union and State Governments shall disclose the Amount of Investments at the beginning and end of the accounting period showing additional investments and disinvestments. The financial statements shall also disclose the dividend received. An additional column in the relevant Financial Statements shall also reflect the amount of dividend

**declared. This amount will not be accounted for but will only be in nature of an additional disclosure.**

**7.2 The Financial Statements of the Union and State Government shall disclose the following details under ‘Investments made by the Union/State Government’ in the Annual Finance Accounts of the Union Government:**

- (a) Summary of Investments: Investee group-wise**
- (b) Summary of Investments: Sector-wise.**

**7.3 The Financial Statements of the Union/State Government shall disclose the following details under ‘Detailed Statement of Investments made by the Union/State Government’ in the Annual Finance Accounts of the Union Government:**

- (a) Detailed Statement of Investments showing the Major Head and Minor Head-wise Details.**
- (b) Detailed Statement of Investments made: Entity wise**

**7.4 The Financial Statements of the Union and government shall disclose the following details under ‘Additional Disclosures’ in the Annual Finance Accounts of the Union/State Government:**

- (a) Fresh Investments and deduction/ disinvestment made during the year.**

**7.5** The Financial Statements shall reflect the total amount of investments at the beginning and end of the accounting period along with the additions made during the year by way of fresh investments to the opening balance and deductions there from by way of disinvestments to arrive at the closing balance. Also the amount of dividend received will be reflected as revenue of the period. An additional column in the relevant Financial Statements shall also reflect the amount of dividend declared, though not necessarily received. This amount will only be by nature of an additional disclosure and not accounted for.

**7.6** Financial Statements of both the Union and the State Governments shall disclose details of Investments made in various investees in their respective Annual Finance Accounts in three parts. For the Union Government these would be ‘Investments made by the Union Government’, ‘Detailed Statement of Investments made by the Union Government’ and ‘Additional Disclosures’ in the Annual Financial Accounts of the Union government.

**7.7** The State Government will have a similar three tier presentation in Annual Finance Accounts of the State ‘Investments made by the State Government’, ‘Detailed Statement of Investments made by the State Government’ and ‘Additional Disclosures’ in the Annual Finance Accounts of the State Government.

7.8 The Detailed Statement of Investments made by the Government, on the other hand, shall disclose the major head-wise and minor head-wise details of the investments made by Governments as also detailed statements of entity wise investments.

7.9 Another Detailed Statement of Investments made: Entity wise in the Finance Accounts of the Governments shall report details including the full name of the entity, the number of shares and the total amount invested. While indicating the details, the shares purchased and those allotted as bonus shall be depicted separately along with year of allotment and then added together to give the total number of shares. It shall also disclose the total paid up capital of the entity and its current net worth. This would help indicate the extent of government control and whether the investment has appreciated or depreciated. Moreover, where the shares are traded in the market, the amount of investment in terms of market value shall also be disclosed as on the last date of the reporting period.

7.10 The amount of dividend received and credited to government revenue shall also be reported entity wise. In case the dividend received pertains to previous accounting periods the figure would be starred and the year to which the amount actually pertains disclosed in the footnote. In addition, the dividend declared, though not necessarily paid, shall be disclosed. The net profit or loss during the year of the entity shall also be disclosed and this would help indicate the appropriateness of the dividend amount.

7.11 The Third, Additional Disclosure, shall disclose the fresh investments and disinvestments made during the reporting period. In addition it would disclose as a note on investments made in entities which have made a loss in the accounting period along with reasons for making the investment.

7.12 All the figures in the Financial Statements are 'in lakhs' of rupees.

## **8 Effective date**

This Indian Government Accounting Standard becomes effective for the financial statements effective for the Financial Statements covering periods beginning 1 April of the year after the notification of the Standard by the Government.

## **9 Format for disclosure**

The formats for disclosures in the Financial Statements of the Union Government and the State Governments respectively are shown hereunder.

# Financial Statements of the Union/State

## Government

### Statement of Investment made by the Union/State Government

**Section: 1      Summary Investments: Investee Group wise**

*(In lakhs of rupees)*

Investee Group	Balance on April 1, <u>20X0</u>	Investments made during the year	Disinvestments during the year	Balance on March 31, <u>20X1</u> <b>(2+3) - (4)</b>	Net increase/decrease during the year <b>(2-5)</b>
1	2	3	4	5	6

**Section: 2      Summary of Investments: Sector-wise**

*(In lakhs of rupees)*

Sector	Balance on April 1, 20X0	Investments during the year	Disinvestments during the year	Balance on March 31, 20X1 <b>(2+3) - (4)</b>	Net increase/decrease during the year <b>(2-5)</b>
1	2	3	4	5	6

**Note:** For details, refer Section 1 of Detailed Statements of Investments made by the Union/State Government.

## Detailed Statement of Investments made by the Union/State Government

### Section: 1 Detailed statement of investments made: Entity Wise

*(In lakhs of rupees)*

Sl. No.	Name of the concern	Details of investment			Total Amount Invested Upto end of 20X0-20X1	Net paid Up capital	Net Worth/ Net Asset Liability Position	Market Value of Investment/ Fair Value	Net Profit/ Loss	Amount of Dividend Received and Credited to Government during the year	Amount of Dividend Declared
		Type of Investment	Number of Units	Face Value of each Unit							
1	2	3	4	5	6	7	8	9	10	11	12

### Section: 2 Major and Minor Head wise Details of Investments

*(In lakhs of rupees)*

Major Head	Minor Heads	Balance on April 1, 20X0	Investments during the year	Disinvestment during the year	Balance on March 31, 20X1	Net Increase/ decrease during the year (3-6)	Dividend Received
1	2	3	4	5	6	7	8

## Additional Disclosures

### *Fresh Investments/disinvestments made during the year*

*(In lakhs of rupees)*

Investee Entity	Investment			Disinvestment		
	Type of Units	Number of Units	Total amount invested	Type of Units	Number of Units	Total amount of disinvestment
1	2	3	4	5	6	7

**Notes:**

1. Fresh Investments made during the year in those entities which suffered a net loss during the last year.

*(In lakhs of rupees)*

Name of the Investee entity	Investment made during the year 20X0-20X1			Amount of Investment as on March 31, 20X1			Net Loss During 20X0-20X1	Reasons for investment during 20X0-20X1
	Type of Units	Number of Units	Total Amount	Type of Units	Number of Units	Total Amount		
1	2	3	4	5	6	7	8	