

Query No. 3

Subject: Treatment of Government Grant under AS framework.¹

A. Facts of the Case

1. XYZ is a flagship programme of the Government and it was set up as a 100% Government owned, not for profit (Section 8) Private Limited Company (hereinafter referred to as ‘the Company’ or ‘XYZ SPV’) registered under the Companies Act, 2013 as per the approval of Union Cabinet dated 07-04-2017. The objective of the Government was to fund a Special Purpose Vehicle (SPV) for setting up a National Procurement Portal where it shall provide an end-to-end online Marketplace for Central and State Government Ministries/ Department, Central and State Public Sector Undertakings (CPSUs and SPSUs), Autonomous Institutions and Local Bodies for procurement of common use goods and services in a transparent and efficient manner.

2. The Hon’ble Finance Minister in the Budget Speech of 2016-17, mentioned that “We have to bring more transparency and efficiency in Government procurement of goods and services. The Director General of Supplies and Disposal (DGS&D) will establish a technology driven platform to facilitate procurement of goods and services by various Ministries and agencies of the Government” (paragraph 101 of the Budget Speech).

3. *Purpose of the Government Grants:* On the backdrop as above, the querist has submitted the following information in respect to the grant imparted to the Company:

- a. The Government of India has laid down the policy while setting up the Company that it would be self-sustaining model, however, in the initial years, the Company would require Government investment for meeting *the initial cost of setting up of the Company*. In the Cabinet Note (07 April, 2017), proposal for setting up of the Company as the National Public Procurement Portal, a section 8 Company registered under the Companies Act, 2013, with a budgetary support of Rs. 200 crore from the Government of India, was put up to the Cabinet for approval. As per the proposal, Rs. 200 crore was to be utilised for payment of salaries, project management unit costs (including cost of professionals hired), operational cost of the Company and managed service provider (MSP) costs, hiring of space for new entity and building physical infrastructure.

(Emphasis supplied by the querist.)

- b. Cabinet approved (07 April, 2017) the setting up of the Company with a budgetary support of Rs. 200 crore. The Government proposed to disburse Rs. 200 crore in two tranches during August 2017 to March 2021.

4. *Basis for adoption of current accounting policy of Government Grants*

The querist has drawn the attention to Accounting Standard (AS) 12, ‘Accounting for Government Grants’, issued by the Institute of Chartered Accountants of India (ICAI) wherein:

¹ Opinion finalised by the Committee on 6.4.2023.

- a. In paragraph 5.4, it is mentioned that it is generally considered appropriate that accounting for government grant should be based on the nature of the relevant grant. Grants which have the characteristics similar to those of promoters' contribution should be treated as part of shareholders' funds. Income approach may be more appropriate in the case of other grants.
- b. In paragraph 10.1, it is stated that where the government grants are of the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.
- c. In paragraph 16, it is stated that Government grants of the nature of promoters' contribution should be credited to capital reserve and treated as a part of shareholders' funds.

Accordingly, in terms of principles laid down by AS 12 towards government grant, the Company has recognised the government grant in the nature of the government investment as promoter's contribution which will be credited to Capital Reserve Account and be treated as a part of shareholder's fund (paragraph 16 of AS 12).

5. Reason for change in accounting policy in the financial year (F.Y.) 2019-20

In the financial year (F.Y.) 2017-18 and F.Y. 2018-19, for the purpose of accounting, Income Approach was considered by the management in terms of clause (ii) of paragraph 5.3 of AS 12, 'Accounting for Governments Grants' and the appropriation of grants was restricted from the reserve to the extent of shortfall of income over expenses.

During the F.Y. 2019-20, attention was drawn to the Accounting Standard (AS) 12 wherein:

- a. In paragraph 5.4, it is mentioned that it is generally considered appropriate that accounting for government grant should be based on the nature of the relevant grant. Grants which have the characteristics similar to those of promoters' contribution should be treated as part of shareholders' funds. Income approach may be more appropriate in the case of other grants.
- b. In paragraph 10.1, it is stated that where the government grants are of the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.
- c. In paragraph 16, it is stated that government grants of the nature of promoters' contribution should be credited to capital reserve and treated as a part of shareholders' funds.

Accordingly, in terms of principles laid down by AS 12 towards government grant, the Company has reconsidered the purpose of the grant in the relevant year under consideration and the statutory auditor and management were under the impression that change in

accounting policy would result in a more appropriate presentation of the financial statements of the enterprise in terms of paragraph 29 of Accounting Standard (AS) 5, 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies'. Hence in the F.Y. 2019-20, no amount of grant has been transferred to Income and Expenditure Account and entire amount has been shown as part of the promoter's contribution under 'Capital Reserve' in terms of paragraph 10.1 of AS 12. The disclosure for the same is provided in Note 26.2 of the audited accounts of the Company for the F.Y. 2019-20.

6. *Observation by the Comptroller and Auditor General of India (C&AG):*

The Company falls under the category of Government owned entity, hence, it falls in the ambit of C&AG Audit. No observation was raised by C&AG during the audit of F.Y. 2019-20 (when change in accounting treatment was adopted). However, during the audit of F.Y. 2020-21, the following observations have been stated:

Statement of Income & Expenditure for the year ended 31 March 2021

Other Income (Note 16): Rs. 6.45 crore

The above does not include deferred revenue income amounting to Rs. 22.56 crore towards utilisation of government grant. Similarly, prior period income amounting to Rs. 15.02 crore, Rs. 46.76 crore and Rs. 58.79 crore pertaining to financial years 2017-18, 2018-19 and 2019-20 respectively were also not accounted for as deferred revenue income during the previous years due to incorrect compliance of the Accounting Standard 12.

The Company through its accounting policy No. 5 on the Government Grant stated that, "The Government of India has laid down the policy while setting up the Company that it would be self-sustaining model, however in initial years the Company would require Government Investment for meeting the initial cost of setting up of the Company. Accordingly, in terms of principles laid down by the Accounting Standard 12 towards Government Grant, the Company has recognised the Government Grant in the nature of the Government Investment as Promoter's Contribution which will be credited to the Capital Reserve Account and be treated as a part of Shareholder's fund (Para 16 of AS 12)".

Further, the Ministry of Commerce and Industry (the Ministry) through the Cabinet Note dated 07.04.2017 has approved a grant of Rs. 200 crore to be spent during the initial two years of the Company's incorporation towards employee benefits, operational expenses, administrative expenses and expenditure on creation of fixed assets. The Cabinet Note envisaged that during the initial two years, the Company will be dependent on the government grant for its functioning and from third year onwards, revenue will start generating from levy of User Charges and transactions taking place on the portal. However, the Company levied the transaction charges on the sale over its portal from September 2018 onwards i.e. from the second year onwards from its incorporation. Thus the Company has been earning revenue from its operations by second year itself against the envisaged from third year of the Cabinet Note.

The Company utilised the Government Grant of Rs. 200 crore full and final by the end of financial year 2020-21 as per the utilisation certificate submitted to the Government. The Chief Executing Officer (CEO) who is head of the organisation has certified in the

utilisation certificate dated 22.03.2021 that the entire grant was utilised for the purpose for which it was sanctioned. Further, it was also certified that the transaction charges collected from sellers for transactions through the Company's portal are kept in Separate Bank Account in the form of fixed deposits amounting to Rs. 142.95 crore.

From the above, it is evident from the certification of CEO of the Company that the Reserve & Surplus amounting to Rs. 170.40 crore shown in the financial statements of the Company as on 31.03.2021 was not the balance remaining of the Government Grant but infact the balance has arisen out of the revenue income amounting to Rs. 143.12 crore generated by the Company from its operations.

Audit noted that the difference of Rs. 27.28 crore (Rs. 170.40 crore – Rs. 143.12 crore) was due to the advance payment to MSP and purchase of fixed assets out of government grant. The Company has provided the advance amounted to Rs. 25 crore to the Managed Service Provider, M/s. I Ltd. as per clause 8.2 of the Request for Proposal (RFP). The advance is recoverable from the MSP in future period starting from the last eight quarters (4th and 5th year) from the quarterly MSP pay-outs and thus the advance is recoverable from MSP and cannot be treated as grant utilisation to that extent. Audit further noted that the Company has purchased fixed assets amounted to Rs. 2.41 crore during the period from its inception till 31.03.2021.

The wrong depiction was due to the incorrect compliance of Accounting Standard (AS) 12 on the Government Grant in the annual accounts of the Company.

AS 12 prescribed for recognition of government grants as Promoter's Contribution on the condition that there was a "reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof; the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income".

Audit also noted that the Government as per Cabinet Note has provided the Grant for revenue expenses like employee benefits, operational expenses, administrative expenses and capital expenditure on creation of fixed assets for the initial two years until the Company started User Charges and the revenue generated from the transactions taking place on the portal. The above conditions of the Cabinet Note are contradicted to the capital outlay method of AS which the Company has adopted.

Infact, Accounting Standard 12 has alternately prescribed that Government Grants related to revenue should be recognised on a systematic basis in the profit and loss statement over the periods necessary to match them with the related costs which they are intended to compensate. Such grants should either be shown separately under 'other income' or deducted in reporting the related expense. Similarly, AS 12 also states that government grants related to depreciable fixed assets may be treated as deferred income which should be recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset, i.e., such grants should be allocated to income over the periods and in the proportions in which depreciation on those assets is charged.

Thus, from the above it is clear that the reserve and surplus amounted to Rs. 170.40 crore is not the balance amount of Grant, but is the balance of income generated from its

operations, advance provided to MSP and the fixed assets purchased out of the Government Grant. The wrong depiction was due to the incorrect compliance of Accounting Standard (AS) 12 on the Government Grant in the annual accounts of the Company.

The wrong method of adoption of Government Grant under AS 12 has resulted into incorrect presentation of Government Grant amounting to Rs. 170.40 crore in its books of account as on 31.03.2021 and under booking of deferred revenue income amounted to Rs. 143.12 crore from Government Grant during the financial years between 2018-19 and 2020-21.

This has resulted in understatement of Other Income for the year amounting to Rs. 22.56 crore, understatement of prior period income amounting to Rs.120.56 crore and consequent overstatement of deficit amounting to Rs. 143.12 crore.

The above does not include deferred income amounting to Rs. 0.52 crore towards depreciation on the fixed assets purchased out of Government Grant during the financial year 2020-21. Similarly, the deferred income pertaining to financial years 2017-18, 2018-19 and 2019-20 amounting to Rs. 0.03 crore, Rs. 0.26 crore and Rs. 0.45 crore respectively were not accounted during the previous years' books of account.

The Company during all the years since incorporation has been charging depreciation on the fixed assets purchased out of the Government Grant. The depreciation expenses were charged through the income and expenditure account, however, the fact remains that the depreciation did not pertain to the expense of the Company since it was purchased out of the Government Grant.

The Accounting Standard 12 prescribed that government grants related to depreciable fixed assets may be treated as deferred income which should be recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset, i.e., such grants should be allocated to income over the periods and in the proportions in which depreciation on those assets is charged.

Non-compliance of Accounting Standard 12 has resulted in understatement of Other Income for the year amounting to Rs. 0.52 crore, understatement of Prior Period Income amounting to Rs. 0.74 crore and overstatement of deficit for the year amounting to Rs. 1.26 crore.

Management's Remarks

“The observations of Audit have been examined and the following points are submitted
-

Para 6.2 of the Cabinet Note dated 07.04.2017 which provided for creation and setting up of the Company clearly provides that the Grant in Aid was made for setting up of a self-sustaining SPV, which would require minimal investment by the Government (Rs. 200 crore infused in two tranches in two financial years).

Para 3.2 of aforementioned Cabinet Note further directs that the government investment shall be utilised for making payment to the Managed Service Provider for development

and operation of the Company's portal, hiring of space for the new entity, building physical infrastructure, payment of salaries etc. to officers and staff.

Para 5.2 read with Para 5.4 of AS 12 prescribed for recognition of Government Grant as Promoter's Contribution, lay down the condition that there was a "reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof; the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income".

In this context, it may be noted that all the above conditions as laid down in AS 12 are satisfied in the instant case. The Annexure-C of Cabinet note provided a clear-cut reference to the total government investment on the Company. Further, there is no stipulation of refund of Grant as per Cabinet Note.

Audit may also kindly appreciate that the same treatment (as being followed by the Company) was in fact suggested by Audit department in 2019-20 (Audit observation no. 12: attached) "Hence, the Grants were received for creation of Equity Share Capital Fund and no such loss/excess of expenditure over income can be adjusted against the Share capital fund." Accordingly, the audit was informed by the Company that "In the Current Year, no amount of Grant has been transferred to income & expenditure account and entire amount has been shown as part of Promoter's contribution under Capital Reserve." Accordingly, the same treatment was made in last year also and concurred by Audit.

In 2019-20 when the same policy was followed, a clear disclosure was furnished in Point no. 3 of accounting policy stating that the Government Grant is in the nature of Government investment as Promoter's contribution which will be credited to capital reserve and treated as Shareholder's fund.

The accounting of Government Grant is as per para 16 of AS 12 and such cannot be stated as incorrect.

In view of above, it is clear that the amount contributed by the Government is in the nature of an investment, and thus would constitute the promoter's contribution for setting of the Company as per para 16 of AS 12 prescribing accounting of Government grants.

As has already been explained above, para 8 of AS 12 (referred to by Audit) deals with Grants related to Specific fixed Assets, hence not relevant in this case. Grants related to Specific Fixed assets are government grants whose primary condition is that an enterprise qualifying for them should purchase, construct or otherwise acquire such assets.

Para 6.2 of Cabinet note for creation of the Company provides that the Grant in Aid was made for "setting up of a self-sustaining SPV would require minimal Investment by the Government".

Further Para 3.2 of Cabinet note directs that "The same shall be utilized for making payment to the Managed Service Provider for development and operation of XYZ

portal, hiring of space for the new entity, building physical infrastructure, payment of salaries etc. to officers and staff’.

In view of these provisions it cannot be said that the Grant in the instant case is related to specific fixed assets.

7. Trail of Events/ flow of communication with respect to observation raised by C&AG is as follows:

- a. Query / observation regarding Change in Accounting Treatment of Government Grant was raised by Principal Director of Audit Industry & Corporate Affairs to Cabinet (Minister In Charge) vide Letter dated 17-01-2022.
- b. Response by the Ministry of Commerce & Industry, Department of Commerce, Government of India, New Delhi, on 8th March, 2022.
- c. Recommendation to seek opinion from the Institute of Chartered Accountants of India, given by Principal Director of Audit Industry & Corporate Affairs on 29th April, 2022.

B. Query

8. On the basis of above, the querist has sought the opinion of the Expert Advisory Committee of the ICAI as to whether considering the shared facts, observations and attached letters/communications, the adopted accounting treatment of the government grant by the Company for the financial years 2017-2019 and adopted change in accounting treatment from F.Y. 2019-20 and onwards are appropriate.

C. Points considered by the Committee

9. The Committee notes that the basic issue raised by the querist relates to accounting treatment of grant received and appropriateness of subsequent change in accounting treatment in relation thereto. The Committee has, therefore, examined only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, timing of recognition of grant, accounting for advance provided to I Ltd., accounting for expenses incurred by the Company during incorporation, employee benefits expenses, operational expenses, administrative expenses, hiring of space for the new entity, expenditure on creation of fixed assets, payment to the Managed Service Provider for development and operation of the Company’s portal, appropriateness of the balance in reserves & surplus, appropriateness of change in accounting treatment as per Accounting Standard (AS) 5, ‘Profit or Losses for the Period, Prior Period Items and Changes in Accounting Policies’, etc. The opinion is expressed purely from accounting perspective and not from legal perspective, such as legal interpretation of Cabinet’s approval, various communications between the Company and the concerned ministry/Government with regard to budgetary support, etc. Further, since the issue has been raised in the context of AS 12, the opinion expressed hereinafter is from the perspective of the Accounting Standards, notified under the Companies (Accounting Standards) Rules, 2021 and not from the perspective of Indian Accounting Standards (Ind ASs). At the outset, the Committee presumes from the Facts of the Case that the Company is not acting as an agent of the Government and that the Company has not issued any shares to the Government against the budgetary support granted to it.

10. The Committee notes the following paragraphs from the ‘Note for the Cabinet’ on the subject ‘setting up of a Special Purpose Vehicle ... (the Company)’, which had been approved by the Cabinet:

“3.2 The Company would be incorporated presently as a 100% Government owned, not for profit (Section 8), Private Limited Company, registered under the Companies Act, 2013. *The Company shall have an authorized equity share capital of Rs. 200 crore. The same shall be utilized for making payment to the Managed Service Provider for development and operation of XYZ Portal, hiring of space for the new entity, building physical infrastructure, payment of salaries etc. to officers and staff (it is expected that the Company would break-even from the 3rd year of its incorporation as it is based on revenue generation model.) The estimated Operating expenditure of XYZ SPV along with details of 66 posts in the first two years is detailed in*”

“6. Financial Model & Implications

6.1. The Company will be a self-sustaining model with revenue generated from levy of User Charges and transactions taking place on the portal. While these will be kept to the minimum it is expected that these will be sufficient to cover the expenses on account of running of SPV and amount to be paid to the MSP. However, *in first 2 years of incorporation of XYZ SPV, there would be requirement of funds which would meet the initial cost of setting up of XYZ on a self-sustaining mode. After 2 years no further requirement of funds from the Government would be needed.*

6.2. *Setting up of a self-sustaining XYZ SPV would require minimal investment by the Government (Rs. 200 crore infused in 2 tranches in two Financial Years). XYZ SPV shall generate revenue by way of user charges from sellers.*

...”

“8 APPROVAL SOUGHT

...

8.3. Budgetary support of Rs. 200 crore (Rs. 100 crore each in FY 2017-18 and 2018-19) for setting up of XYZ SPV.”

(Emphasis supplied by the Committee.)

From the above, the Committee notes that the Company has been formed as an SPV for providing a central portal/platform for procurement of goods and services required by the Central and State Government PSUs, ministries, institutions, etc. having an authorised equity share capital of Rs. 200 crore. This amount shall be utilised for making payment to the Managed Service Provider for development and operation of Company’s portal, hiring space, building infrastructure, payment of salaries etc. Further, at various places, it also states that a budgetary support of Rs. 200 crore shall be provided to the Company in two tranches for meeting the initial cost of setting up of XYZ on a self-sustaining mode till the time it starts generating revenue. From this, it appears that the intention to provide budgetary support in the extant case is to provide an initial one-time support to the Company towards initial capital (including working capital) investment in the Company to make it self-sustainable and that the budgetary support of Rs. 200 crore as intended to be provided by the Government, which

is also the 100% owner of the Company in exchange of equity shares or in other words, as equity contribution.

The Committee further notes from the letter issued by the Ministry of Commerce & Industry, Department of Commerce, on 8th March, 2022 in response to Query/ Observation regarding change in accounting treatment of Government Grant as raised by Principal Director of Audit Industry & Corporate Affairs to Cabinet (Minister-in-Charge) vide Letter dated 17-01-2022, which provides clarification on the nature of grant as follows:

“Annexure – I

...

4. As the budgetary support by Government of India, Ministry of Finance to XYZ SPV was given as **Grant in Aid** in the following head;

Demand No. 11, Department of Commerce,

Major Head 2057 – Supplies & Disposals

00.101.03.03.31 XYZ SPV **Grants-in-Aid-General**

...”

From the above and since the facts do not suggest the issuance of shares against the budgetary support (as also presumed in paragraph 9 above), it is clear that the budgetary support to the Company was granted to the Company in the form of ‘grant-in-aid’ for certain purposes, as mentioned above. Further, the grant of Rs. 200 crore has been provided and used by the Company for the same purpose or activities for which the equity share capital was to be used as per the Cabinet Note.

11. With regard to the accounting treatment of grant received, the Committee notes the following requirements of Accounting Standard (AS) 12, ‘Accounting for Government Grants’:

“5.1 Two broad approaches may be followed for the accounting treatment of government grants: the ‘capital approach’, under which a grant is treated as part of shareholders’ funds, and the ‘income approach’, under which a grant is taken to income over one or more periods.

5.2 Those in support of the ‘capital approach’ argue as follows:

- (i) Many government grants are in the nature of promoters’ contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in the case of such grants. These should, therefore, be credited directly to shareholders’ funds.
- (ii) It is inappropriate to recognise government grants in the profit and loss statement, since they are not earned but represent an incentive provided by government without related costs.”

“5.4 It is generally considered appropriate that accounting for government grant should be based on the nature of the relevant grant. Grants which have the characteristics similar to those of promoters’ contribution should be treated as part of shareholders’ funds. Income approach may be more appropriate in the case of other grants.”

“10. Presentation of Grants of the nature of Promoters’ contribution

10.1 Where the government grants are of the nature of promoters’ contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.”

“16 Government grants of the nature of promoters’ contribution should be credited to capital reserve and treated as a part of shareholders’ funds.”

From the above, the Committee notes that the government grant which is given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof is in the nature of Promoters’ contribution.

In the extant case, the Committee notes that the grant received is neither in relation to any specific asset nor towards any specific revenue expense; rather (as discussed in paragraph 10 above) the same is provided by the Government, which is also the 100% owner, as an initial one-time support to the Company towards initial capital (including working capital) investment in the Company to make it self-sustainable and the same is not required to be repaid. Accordingly, the Committee is of the view that the same is in the nature of Promoters’ Contribution as per AS 12 and therefore, should be credited to capital reserve which can neither be distributed as dividend nor considered as deferred income.

Therefore, the grant credited to ‘capital reserve’ cannot be subsequently recognised as income in the Statement of Profit and Loss on incurring expenditure out of the grant. Thus, the accounting treatment followed by the Company for the F.Y. 2017-18 and F.Y. 2018-19 of accounting for the government grant using ‘Income Approach’ was not appropriate. However, the change in accounting treatment by the Company in the financial year 2019-20 of not transferring grant (which is of the nature of promoters’ contribution) to the Income and Expenditure Account is appropriate.

12. The Committee is further of the view that since the Company in the extant case, did not follow the above-mentioned requirements of AS 12 for the financial years 2017-18 and 2018-19, the same should be considered as an error of prior periods and should be accounted for as a prior period error by creating capital reserve with a corresponding debit to Income and Expenditure Account (since earlier, the amount was credited to Income and Expenditure Account), as per the following requirements of AS 5, ‘Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies’:

“4.3 Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.”

“Prior Period Items

15. The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.

16. The term ‘prior period items’, as defined in this Standard, refers only to income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. The term does not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period, e.g., arrears payable to workers as a result of revision of wages with retrospective effect during the current period.

17. Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, or oversight.”

D. Opinion

13. On the basis of the above, the Committee is of the opinion that the budgetary support in the extant case is in the nature of Promoters’ Contribution as per AS 12 and should be credited to capital reserve, which can neither be distributed as dividend nor considered as deferred income. Therefore, the grant credited to ‘capital reserve’ cannot be recognised subsequently as income in the Statement of Profit and Loss on incurring expenditure out of the grant. Thus, the accounting treatment followed by the Company for the F.Y. 2017-18 and F.Y. 2018-19 of accounting for the government grant using ‘Income Approach’ was not appropriate, as discussed in paragraph 11 above. However, the change in accounting treatment by the Company in the financial year 2019-20 of not transferring grant (which is of the nature of promoters’ contribution) to the Income and Expenditure Account is appropriate.

Further, since the Company in the extant case, did not follow the above-mentioned requirements of AS 12 for the financial years 2017-18 and 2018-19, the same should be considered as an error of prior periods and should be accounted for as a prior period error, by creating capital reserve with a corresponding debit to Income and Expenditure Account (since earlier, the amount was credited to Income and Expenditure Account), as per the requirements of AS 5, as discussed in paragraph 12 above.