

Query No. 37

Subject: *Accounting for commission paid for performance bank guarantees, under Ind AS framework.*¹

A. Facts of the Case

1. A company (hereinafter referred to as ‘the Company’) was incorporated as a joint venture company (JV) of two public sector undertaking (PSU) Companies, viz, H Ltd. and O Ltd. (hereinafter referred to as ‘investors’ or ‘promoters’) to lay, build & operate City Gas Distribution (CGD) networks in Ambala-Kurukshetra Geographical Area (GA), Haryana and Kolhapur GA, Maharashtra after obtaining authorisation from Petroleum and Natural Gas Regulatory Board (PNGRB), the regulatory body for City Gas distribution (CGD) entities in India.

2. The querist has stated that PNGRB authorisation mentioned hereinabove inter-alia required the Company to furnish upfront Performance Bank Guarantee (PBG) of Rs. 1948 crore for timely completion of the following Minimum Work Programme (MWP) committed by the Company in bidding:

Particulars	Targets	Extended Target Date
Ambala-Kurukshetra GA (Cumulative)		
Total inch-Km of Pipeline to be Laid	1142 Inch KM	31st March 2025
Infrastructure for PNG Domestic Connections	20624 Connections	
Kolhapur GA (Cumulative)		
Total inch-Km of Pipeline to be Laid	1800 Inch KM	31st May 2025
Infrastructure for PNG Domestic Connections	38760 Connections	
Other Condition (for both GA):		
Bid Bond/Performance Bank Guarantee	Rs. 1,948 Crores	

The promoters/investors having 50:50 share in the Company furnished PBG worth Rs. 974 crore each to PNGRB. The PNGRB’s authorisation further gives the bid-winning CGD entity exclusive rights over the infrastructure created/ developed within the designated geographical areas for a period of 300 months and marketing exclusivity for a period of 60 months. Under the authorisation, the Company is required to implement the project and meet the Minimum Work Programme (MWP) targets set by PNGRB for both the GAs during the project period. These MWP targets outline the minimum number of domestic households to be connected and the pipeline infrastructure to be laid in order to achieve these connections within the first 5 year period from the date of authorisation (referred to as the MWP period in normal terms). The MWP period was later extended by 2 years due to the COVID-19 outbreak and flooding in Kolhapur (i.e., for execution of MWP targets till 31st March 2025 for Ambala-Kurukshetra GA and 31st May 2025 for Kolhapur GA).

3. *Financing arrangement of the Company:*

As per the Detailed Feasibility Report (DFR), the total project cost is Rs. 641.00 crores to complete the entire work programme including MWP targets enumerated in the table above. The Company’s financing arrangement, basis the financial closure achieved as per PNGRB

¹ Opinion finalised by the Committee on 28.1.2025.

authorisation, provides for a debt-equity ratio of 70:30, comprising equity infusion of Rs. 192.00 crores by the promoters and Rs. 449.00 crores as term loan from the lending bank.

4. In the 8th round of bidding held in 2018 for the Ambala-Kurukshetra GA and Kolhapur GA, all successful bidders were required to submit an additional bid bond (hereinafter referred to as PBG/ bid bond/ bank guarantee). The bidder offering the highest additional bid bond would be declared the successful bidder.

As stipulated by the PNGRB (Regulations for Authorising Entities to Lay, Build, Operate, or Expand City or Local Natural Gas Distribution Networks) Regulations, 2008 (hereinafter referred to as 'PNGRB Regulations'), the Company is obligated to submit an additional bank guarantee to the PNGRB within a specified timeline from the receipt of the authorisation letter. The authorisation is liable to be cancelled in case the PBG is not furnished within the stipulated timeline.

5. In accordance with PNGRB Regulations and the bidding documents, the promoters were allowed to provide the required PBG on behalf of the Company. As a result, the total PBG of Rs. 1,948 crores (*approximately three times the project cost*) was equally shared between the promoters, with each promoter (H Ltd. and O Ltd.) contributing Rs. 974 crores each. Since the PBG had been funded out of the non-fund based limits of the promoters, the commission (hereinafter referred to as 'BG commission') thereon since beginning is being charged to the Company by way of debit notes on quarterly/monthly basis along with GST.

6. The Company in its books has been consistently treating the BG commission as a cost eligible for capitalisation as per paragraph 16(b) of Indian Accounting Standard (Ind AS) 16, 'Property, Plant and Equipment', which states about costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. While the BG commission, when charged initially is booked as Capital Work-in-Progress (CWIP), the entire capitalised value of the asset including the BG commission, upon commissioning is depreciated at rates provided for in the Companies Act.

7. The Company maintains complete record of BG commission capitalised through the CWIP route and corresponding charging of depreciation upon commissioning of the assets. According to the querist, the assets being created by the Company, namely, the pipeline network, PNG-Domestic facilities inside the kitchen of the household consumers, CNG stations etc. are all qualifying assets (in terms of Ind AS 23, 'Borrowing Costs') which in PNGRB's own estimation require an average of 5 years to be created.

8. In 2023, in an effort to reduce the financial burden arising from BG commission, the Company approached PNGRB for partial release of PBG, stating that approximately 80% of the total project targets had been completed, with a portion of the physical targets capitalised in the books of account, and that the project would be completed by the MWP date. Therefore, it was requested to PNGRB to return the proportionate amount of PBG, based on the completion of the committed MWP. The Company's request was rejected by PNGRB stating that the PBG would be returned only if the following two conditions are complied with:

- (i) Achievement of MWP Targets; and
- (ii) Expiry of exclusivity from purview of common carrier or contract carrier.

9. *Comptroller and Auditor General of India's (C&AG's) comment on supplementary audit for financial year (F.Y.) 2023-24:*

Basis their supplementary audit, conducted under section 143(6)(b) of the Companies Act, 2013 for the financial year 2023-24, C&AG (Government Auditors) commented that capitalisation of the bank guarantee commission in the books of the Company has resulted in over statement of profit to the extent of Rs. 235.93 lakhs for F.Y. 2023-24 and a consequent overstatement of the non-current assets (property, plant & equipment (PPE), CWIP, intangible assets and intangible assets under development). Further, capitalisation of BG commission since inception, has resulted in an overstatement of PPE by Rs. 1344.28 lakhs out of which Rs. 235.93 lakhs is on account of the current financial year, i.e., F.Y. 2023-24.

As per C&AG, the above accounting treatment of BG commission by the Company is a contravention of paragraph 8 of Ind AS 23, 'Borrowing Costs' which stipulates that borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

C&AG, in conclusion, commented that the Company, having resorted to capitalisation of BG commission on a year-on-year basis, has committed a material prior period error which calls for restatement of the financials statements of the previous years.

According to the querist, it appears that the C&AG considered the bank guarantee commission to be associated with PBG, which is typically issued towards contractual arrangements of goods/service. In such cases, PBGs are usually issued by the vendors as per the contract agreement, generally ranging from 5% to 10% of the total annualised contract value and such BG commissions are revenue expenditure for vendors.

In its response, the Company informed C&AG that BG commission expenses were capitalised in accordance with Ind AS 16, 'Property, Plant and Equipment' which clearly outlines the capitalisation of expenditures directly attributable to preparing the asset for its intended use, including bringing it to the necessary location and condition for operation as intended by management.

Further, the Company clarified to the C&AG that the extant case is not comparable to typical cases, as mentioned during the discussion. In such cases, the PBG amount is generally calculated as a percentage of the annualised contract value, and the PBG itself does not serve as the deciding factor for awarding the contract or tender, which is not the situation in the extant case.

Furthermore, in the extant case, the bank guarantee amount was more than three times the total project cost (Rs. 1,948.00 crores of PBG as against Rs. 641.00 crores project cost), which is a significant deviation from the typical scenario discussed with the auditors. Moreover, this large bank guarantee was the primary awarding criterion in this case, unlike the usual practice where it is only a smaller percentage of the total contract value. This substantial amount of the bank guarantee is not in line with the usual practice where the guarantee is typically a smaller percentage (5-10%) of the total annualised contract value. Such bank guarantee will only be returned to us after completion of MWP targets and completion of exclusivity period i.e., project period.

While submitting the responses during the supplementary audit, the responses were reviewed and confirmed by the statutory auditor of the Company, who affirmed that the accounting practice followed by the Company regarding the treatment of bank guarantee commission is in accordance with the provisions of Ind AS 16. The Standard allows capitalisation of costs directly attributable to the creation of assets or facilities. The statutory auditor also reinforced this position and noted that, in a similar situation, the Expert Advisory Committee (EAC) had

opined in favour of capitalising insurance premiums in an earlier opinion (published as Query No. 25 of the Compendium of Opinions, Volume XLI).

10. *Management's stand on the matter:*

In response to the final comment from the C&AG, the Company also submitted its representations to the CAG, requesting a review of the comment.

The following is submitted for kind consideration of EAC of ICAI:

The context for submission of the PBG has already been explained in the foregoing. However, the Company reiterates that the submission of PBG for a value of Rs. 1,948 crore was an unavoidable precondition of the authorisation granted by PNGRB under the 8th round of bidding. Accordingly, the PBG was furnished by the promoters jointly with equal share in the total PBG value, i.e. Rs. 974 crore.

PNGRB, as the regulatory body of the Government of India (GoI) for CGD entities, is duly authorised under the Regulation to collect PBGs from all bid-winning entities under 8th round of bidding as a guarantee against possible delay in the completion of the prescribed targets given to the entities. Hence, completion of physical targets given in the authorisation letter formed the sole basis for the CGD entities to furnish the PBG. For greater clarity on the matter, attention of EAC is hereby invited to following paragraph of PNGRB:

- Paragraph 9 of the PNGRB (Authorising Entities to lay, build operate or expand City or Local Natural Gas Distribution Networks) Regulations, 2008 which interalia reads below –

“(1) Grant of authorisation shall be issued to the successful entity after it furnishes the performance bond in the form of a demand draft or pay order or bank guarantee from any scheduled bank ..., whichever is later.

(2) ***

(3) The performance bond has been prescribed for guaranteeing the timely completion of the proposed CGD network as per the prescribed targets and also for meeting the services obligations by the selected entity during the operating phase of the project.”

As per the foregoing regulation, PNGRB, as the regulator, has to ensure that the GoI's mission of bringing gas to each household and transforming India into a gas-based economy, is actually accomplished by putting the obligation on the successful entities to not just complete the project but to complete it within the prescribed timeline.

Accordingly, as part of the Company's obligation to complete the project within the prescribed timeline (For Ambala–Kurukshetra - 31st March 2025 and for Kolhapur – 31st May 2025), the promoters on behalf of the Company furnished PBG worth Rs. 1,948.00 crores to PNGRB.

- The guarantee has been given for timely completion of physical targets, in terms of laying of steel and medium density polyethylene (MDPE) pipelines in both the GAs, setting up of facilities within the kitchens of the domestic household consumers etc. Since all these assets would require substantial period of time to be created, the

Company has consistently treated the assets created/to be created, as qualifying assets under Ind AS 16. Since the guarantee of Rs. 1,948 crore is directly linked to the timely creation/commissioning of the qualifying assets, any cost arising from the PBG so furnished, would by its very nature, qualify as a direct cost of the asset. Further, the principle for recognition of such cost as per Ind AS 16 requires future economic benefits to flow from the said assets. Hence, the Company's capitalisation of BG commission is in compliance with the provisions of Ind AS 16.

- In C&AG's interpretation, BG commission is a borrowing cost and therefore needs to be charged off to revenue as per Ind AS 23. In this connection, it is mentioned that borrowing cost includes the following:
 - (a) Interest expense calculated using the effective interest method as described under Ind AS 109, 'Financial Instruments' as the case may be.
 - (b) Interest in respect of lease liabilities recognised in accordance with Ind AS 116, 'Leases'.
 - (c) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

It is submitted that the BG commission does not fall in any of the above 3 types of costs. Further, Ind AS 23 also provides for capitalisation of borrowing costs directly attributable to acquisition, construction and production of qualifying assets. Since the PBG under reference is inseparably connected to construction of the pipeline network and PNG - domestic connections, commission on PBG cannot be treated as normal revenue expenditure to be charged off to Profit and Loss Account.

- Schedule III to the Companies Act, 2013 requires BG to be disclosed under contingent liabilities in the books of the borrowing entity, which is again a reiteration of the fact that BG is not borrowing of funds. It is hereby submitted that both the promoters are disclosing the aforesaid PBG as contingent liability in their respective annual accounts. Further, the Company has been disclosing the fact that the promoters had arranged PBG worth Rs. 1948 crore since inception in its annual accounts by way of a distinct note (Note 50 of the Company's Annual Report for the F.Y. 2023-24). As per paragraph 16(b) of Ind AS 16, "any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management." A plain reading of the PNGRB Regulation mentioned above makes it abundantly clear that submission of PBG is a necessary and unavoidable precondition for grant of authorisation to commence CGD project activities. BG commission in the extant case is a cost being incurred during implementation phase, which for the Company, is valid till March 2025 for Ambala-Kurukshetra GA and till May 2025 for Kolhapur GA. Hence treating this cost as a directly attributable project cost eligible for capitalisation under Ind AS 16, 'Property, Plant and Equipment' is correct interpretation of Ind AS in the Company's view. Directly attributable expenditures are those which would have been avoided if the project construction had not been made. Without these expenses being incurred, construction of the CGD project would not have proceeded. Moreover, furnishing of performance bank guarantee is mandatory and cost of the same is an inbuilt item of the project cost.
- The bank guarantee expenses incurred by the promoters are periodically charged to the Company through debit notes. While CAG is of the view that bank guarantee commission is an expense to be charged to revenue and capitalising the same

contradicts paragraph 8 of Ind AS 23, the Company feels that Ind AS 23 is not applicable in the case of the Company for reasons elucidated in the foregoing paragraphs. Therefore, *equating BG commission to borrowing is clearly outside the scope and ambit of Ind AS 23.* (Emphasis supplied by the querist.)

- Further, Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India, has provided opinions on various occasions on such expenditures incurred during project period:
 - (a) In the case of an opinion on ‘Capitalisation of insurance premium in construction projects under Ind AS framework’, EAC opined that “As regards the nature of insurance expenses in the extant case, the Committee notes from the facts of the case that the insurance premium has been included as a part of the approved or allowable expenditure under various approvals (including that from CCEA and CWC); and is an inbuilt element of the project cost and not an optional expenditure. From this, it appears that in the extant case, the incurrence of insurance expense is essential or a pre-condition for obtaining such approvals, without which construction activity cannot be commenced and the project/concerned asset(s) cannot be brought to the location and condition necessary for it to be capable of operating in the manner intended by management, as discussed above. Accordingly, the Committee is of the view that in the extant case, the insurance expenses can be considered as directly attributable expenditure to bringing the project/asset(s) to the location and condition necessary for it/them to be capable of operating in the manner intended by the management and therefore, can be capitalised with the cost of an item of PPE”. As explained in the forgoing, submission of the PBG was a mandatory pre-requisite for obtaining PNGRB authorisation, which, in turn, grants the right to create infrastructure assets and facilities as required by PNGRB Regulations. Therefore, the Company, in its humble view, believes that the capitalisation of PBG commission aligns with the aforementioned opinion of the Institute.
 - (b) In the case of another opinion on ‘Accounting treatment of Spectrum Charges, Project Promotion Expenses, and Research & Development Expenditure incurred for construction of High-Speed Rail Project by the Company, under Ind AS framework’, EAC opined that fees/ charges paid for obtaining licences (i.e., Spectrum Charges) or seeking mandatory approvals/ clearance for construction etc. should be capitalised. This opinion further supported the fact that the capitalisation of such PBG commission is appropriate.

B. Query

11. On the basis of above, the opinion of the Expert Advisory Committee is sought on the following issues:

- (i) Whether the accounting treatment of the expenditure (capitalisation of bank guarantee commission in the books of account) of Rs. 13.44 crore as bank guarantee commission related to the PBG of Rs. 1,948.00 crore, incurred for the project by the Company up to 31st March 2024, is correct and in line with the provisions of Ind AS 16.
- (ii) If not the above, what should be the treatment as per the applicable Ind AS?

- (iii) If there is any different accounting treatment other than the treatment being done by the Company in its financial statements, should these changes be treated as changes in estimate, changes in accounting policy, or prior period errors?

C. Points considered by the Committee

12. The Committee notes that the basic issue raised by the querist relates to accounting for BG commission paid by the Company to its promoter companies in respect of performance bank guarantee (PBG) arranged by them. The Committee has therefore, considered only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, accounting for guarantee/PBG provided in the financial statements of the Company, accounting for project cost incurred by the Company, accounting for equity infusion by the promoters and term loan from the lending bank, accounting for the guarantee arranged along with BG commission received in the books of the promoter companies, whether the pipeline network, PNG-Domestic facilities inside the kitchen of the household consumers, CNG stations etc. can be considered as 'qualifying assets' as per Ind AS 23, accounting for PPE, CWIP, intangible assets and intangible assets under development including depreciation thereon, disclosures as per Ind AS 24, 'Related Party Disclosures', requirements of Schedule III to the Companies Act, 2013, whether the CGD project needs to be accounted for as a 'Service Concession Arrangement' under Appendix D, 'Service Concession Arrangements' of Ind AS 115, 'Revenue from Contracts with Customers' including appropriateness of treatment of the infrastructure being developed as property, plant and equipment, etc. Rather, the Committee presumes that the management has appropriately evaluated and concluded that the CGD project is not to be accounted for as a 'Service Concession Arrangement' under Appendix D of Ind AS 115 and it is appropriate to treat the infrastructure being developed as property, plant and equipment under Ind AS 16. Further, the Committee has expressed its opinion purely from the accounting perspective and not from the perspective of legal interpretation of PNGRB Regulation, authorisation letter from PNGRB, Income-tax Act or GST Act, Companies Act 2013, etc. Further, the Accounting Standards referred hereinafter are Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015, as amended/revised from time to time.

The Committee notes that earlier EAC opinions issued on similar subjects have been referred to by the querist in the Facts of the Case. In this regard, it may be mentioned that the Committee's opinions are based on the specific facts provided to it and may not necessarily apply in scenarios/situations with different facts. Therefore, the Committee has independently examined the issues referred by the querist in the facts and circumstances of the extant case and the extent to which the earlier opinions are applicable or are relevant has not been examined by the Committee.

13. The Committee notes from the Facts of the Case that during the bidding held for the CGD project, all successful bidders were required to submit an additional bid bond/performance bank guarantee (PBG) to obtain the project. As stipulated by the PNGRB Regulations, the Company was obligated to submit the bank guarantee to the PNGRB within a specified timeline from the receipt of the authorisation letter. The authorisation is liable to be cancelled in case the PBG is not furnished within the stipulated timeline. Further, in accordance with PNGRB Regulations and the bidding documents, the promoters/investors of the Company were allowed to provide the required PBG on behalf of the Company. Thus, the Committee understands that the total PBG was equally shared between both the promoters/investors of the Company and the BG commission thereon incurred by them since beginning is being charged

to the Company by way of debit notes on quarterly/monthly basis by the promoters/investors and therefore, the BG commission charged by the promoter/investor companies is at fair value. Now, the issue that has been raised is with respect to accounting for such BG commission in the separate financial statements of the Company.

At the outset, the Committee notes that in the extant case, there is no borrowing taken by the Company and/ or the BG commission referred in the fact pattern does not pertain to borrowings taken for the qualifying asset. Therefore, the BG commission referred in the fact pattern is not covered under the requirements of Ind AS 23, 'Borrowing Costs', and, consequently, Ind AS 23 will not be applicable in the extant case. Further, the Committee notes that it has also been stated in the Facts of the Case that "the Company has consistently treated the assets created/to be created, as qualifying assets under Ind AS 16". In this regard, the Committee wishes to point out that the concept of 'qualifying asset' is not contained in Ind AS 16, rather contained in Ind AS 23, which is not applicable in the extant case.

The Committee also wishes to mention that various expenses are incurred prior to the construction phase, which are necessary to be incurred before construction can commence. However, it is not necessary that all such expenses are eligible to be capitalised to the asset/project being constructed. Further, the Committee wishes to mention in this regard that merely because an expenditure is significant or large does not make it eligible for capitalisation. The capitalisation of an item of cost to a plant/project depends upon the nature of such expenses in relation to the construction activity in the context of requirements in this regard laid down in the applicable Indian Accounting Standards.

14. Further, in the context of issue raised, the Committee notes the following paragraphs of Ind AS 16, 'Property, Plant and Equipment':

"16 The cost of an item of property, plant and equipment comprises:

- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

17 Examples of directly attributable costs are:

- (a) costs of employee benefits (as defined in Ind AS 19, *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment;
- (b) costs of site preparation;
- (c) initial delivery and handling costs;

- (d) installation and assembly costs;
- (e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment) ...; and
- (f) professional fees.”

“19 Examples of costs that are not costs of an item of property, plant and equipment are:

- (a) costs of opening a new facility;
- (b) costs of introducing a new product or service (including costs of advertising and promotional activities);
- (c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
- (d) administration and other general overhead costs.”

From the above, the Committee notes that the basic principle to be applied while capitalising an item of cost to a property, plant and equipment (PPE) is that it is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The Committee is of the view that ‘directly attributable’ costs are generally such costs which are necessary to enable or contribute to the construction activity, i.e. these costs are directly related to the construction activity and without the incurrence of which the asset cannot be brought to the location and condition necessary for it to be capable of operating in the manner intended by management.

With regard to BG commission, the Committee notes that it is incurred to obtain the PBG for receipt of authorisation letter and not in relation to any construction activity as such. Further, although furnishing of PBG may be an essential part of getting the authorisation to lay the CGD networks and thus, to obtain the project, BG commission does not attribute to or add any value to the construction of the project or for bringing the project into the condition and location necessary for it to be capable of operating. Therefore, the Committee is of the view that BG commission cannot be said to be directly attributable to bringing the asset/project to the location and condition necessary for it to be capable of operating in the manner intended by the management.

Thus, it cannot be capitalised with the project or the assets being constructed/created. Moreover, since the BG commission does not result into any resource controlled by the Company, the same cannot also be capitalised as an individual asset of the Company. Accordingly, it should be expensed in the Statement of Profit and Loss as and when incurred.

15. The Committee is also of the view that since the Company’s accounting treatment in the extant case is not in accordance with the accounting treatment discussed above, the same should be rectified in the current reporting period, considering it as an accounting error, as per the following requirements of Ind AS 8, ‘Accounting Policies, Changes in Accounting Estimates and Errors’:

“Prior period errors are omissions from, and misstatements in, the entity’s financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) was available when financial statements for those periods were approved for issue; and**
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.**

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.”

“41 Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind ASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity’s financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 42–47).

42 Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:

- (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or**
- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.”**

D. Opinion

16. On the basis of above, and subject to statements and assumptions stated in paragraphs 12 and 13 above, the Committee is of the following opinion on the issues raised in paragraph 11 above:

- (i)&(ii) The Company’s accounting treatment (capitalisation) of the BG commission is not appropriate and the same should be recognised as an expense in the Statement of Profit and Loss, as and when incurred, as discussed in paragraph 14 above.
- (iii) Since the Company’s accounting treatment in the extant case is not in accordance with the accounting treatment discussed above, the same should be rectified in the current reporting period, considering it as an accounting error, as per the requirements of Ind AS 8, ‘Accounting Policies, Changes in Accounting Estimates and Errors’, as discussed in paragraph 15 above.
